

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Audit Committee Guidance
Meeting/Date:	Corporate Governance Panel – 26 March 2014
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Ward(s) affected:	All Wards

Executive Summary

In December 2013, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued the document 'Audit Committees. Practical Guidance for Local Authorities and Police, 2013'. The guidance supersedes that issued in 2005.

The guidance includes a revised Position Statement on Audit Committees in Local Authorities. The Position Statement sets out CIPFA's view on the role and functions of an audit committee. The Panel's current terms of reference and the approach it takes to fulfilling these, match the updated Position Statement's role and functions in many areas.

A report elsewhere on the agenda considers proposals for transferring a number of the Panel's current areas of responsibility to the Standards Committee. It is recommended that once Panel have considered these changes, their amended terms of reference are reviewed against the roles and functions as set out in the Position Statement.

The guidance also contains two checklists against which the Panel can review itself against recommended practice and allow it to consider its own effectiveness. The Panel undertake effectiveness reviews regularly and the checklists will be used to update the content of the effectiveness questionnaire currently being used.

Financial & Legal implications

There are no financial or legal implications arising from this report.

Recommendation:

It is recommended that the Panel in noting the report, agree to

1. Review their Terms of Reference during the annual effectiveness review.

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1. Background information

- 1.1 CIPFA has previously issued a number of documents setting out their views on the role and functions of an audit committee. These include the 2005 Audit Committee guidance and Position Statement on Audit Committees in Local Government; and the 2006 Toolkit for Local Authority audit committees.

The new guidance, 'Audit Committees. Practical Guidance for Local Authorities and Police, 2013' effectively replaces these documents.

- 1.2 The 2013 guidance includes a revised Position Statement that states:

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.

- 1.3 Whilst the language of the guidance is different than its predecessors, its overall intent remains similar. The scope of the Panel's work and the approach that it takes to fulfilling its terms of reference appears to match much of the best practice contained in the guidance.

2. Core Functions

- 2.1 The Position Statement includes a list of seven core functions of an audit committee. These are to:

1. 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.
2. 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.
3. 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.
4. 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.

5. Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
 6. 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.
 7. 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.
- 2.2 The majority of the core functions are currently undertaken by the Panel. With regard to core function 4, the Panel monitor the effectiveness of the control environment, but currently receive little information that aids their understanding of value for money.

3. **Terms of reference**

- 3.1 The guidance includes a model set of terms of reference for an audit committee.
- 3.2 The Panels current terms of reference have been reviewed against the model terms. They remain appropriate and there does not seem to be an immediate need to change them. It is suggested that the Panel take the opportunity that will be available during their annual effectiveness review, to consider the model terms of reference in more detail.

This approach will allow the Panel to consider any possible changes knowing which of its functions, if any, have become the responsibility of the Standards Committee.

- 3.3 The guidance also refers to issues that whilst not core functions of an audit committee, could be undertaken by them as an aid to supporting wider governance initiatives, these include:
- 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.
 - Providing oversight of other public reports, such as the annual report.
- 3.4 Panel have already had some experience in the non-core function areas, i.e. effectiveness reviews of other Committees and Panels. In addition, the 2012/13 Annual Governance Statement noted that an annual report would be introduced for the 2013/14 financial year. Whilst no decision has yet been taken as to how Member oversight will be exercised, there exists the opportunity for the Panel to become involved in the annual report process.

4. Effectiveness reviews

- 4.1 The guidance includes two checklists; the first is intended to be used as a self-assessment against recommended practice; the second is intended to allow the Panel to consider where it is most effective and where there may be scope to do more.
- 4.2 The content of the two checklists is similar to the comprehensive effectiveness review checklist that the Chairman and Vice-Chairman of the Panel have previously used when evaluating the Panel's effectiveness.
- 4.3 It is proposed that the current checklist be retained, but the opportunity is taken to review it against the two checklists within the guidance to identify areas for further improving the effectiveness review process.

5. Training

- 5.1 The guidance includes a knowledge and skills framework for audit committee members. The framework was adopted by the Panel in January as the basis for a formal training programme, which is currently being developed.

Background information

Audit Committees. Practical Guidance for Local Authorities and Police, 2013.
Published by the Chartered Institute of Public Finance & Accountancy.

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