

COMMITTEE General Purposes Committee	DATE 15 November 2007	CLASSIFICATION Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Assistant Chief Executive	Title: Establishment of Audit Committee			
ORIGINATING OFFICER(S): Interim Service Head Risk Management – Minesh Jani	Ward(s) Affected: N/A			

1. Summary

- 1.1. This report seeks agreement to a proposal to alter the composition of the Audit Panel to reflect guidance set out in “Audit Committees – Practical Guidance for Local Authorities” published by CIPFA, by establishing an Audit Committee as part of the Council’s formal committee structure.
- 1.2. This report also recommends a change to the terms of reference for the Pensions and Accounts Committee and to delegate the duty to make proper arrangements for the financial affairs from the Council to the Audit Committee.

2. Recommendation

- 2.1. That the General Purposes Committee recommends to the Council to establish an Audit Committee with the terms of reference as set out below: -
- 1 To consider the Audit Plan and review the performance of Internal Audit against this target;
 - 2 To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary;
 - 3 To act as a forum for the Audit Commission (external audit) to bring issues to Members’ attention including both specific reports and general item such as the Annual Audit Letter and the Annual Governance Report;
 - 4 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;
 - 5 To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;

- 6 To consider reports of audit activity together with specific investigations;
 - 7 To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates;
 - 8 To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds expect the appointment of the Chief Finance Officer which shall remain the duty of the Council; and
 - 9 To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).
- 2.2. To rename the Pensions and Accounts Committee, the Pensions Committee and transfer the second term of reference, that is "To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be)" to the newly constituted Audit Committee.
- 2.3. That the composition of the Audit Committee be in proportion to the political composition of the Council and comprise 4 majority group members and 3 minority group members, pursuant to the review of the proportionality to be determined at the Council meeting on 28 November 2007.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
 And address where open to inspection

Minesh Jani, 0207 364 0738

3. Background

- 3.1. The Council made arrangements to operate its business relating to Audit activity by creating an Audit Panel, which is an advisory body outside the Council's formal committee structure. Since its creation however, the Chartered Institute of Public Finance Accountant (CIPFA) has produced guidance around the membership and the roles and responsibilities of such bodies in a publication called "Audit Committee – Practical Guidance for Local Authorities". Officers have reviewed the structure of the Audit Panel by comparing current arrangements with the guidance issued by CIPFA. Overall, the review showed that the current structure fulfils the role expected of the Audit Panel. However, the key area for development is the need to demonstrate greater independence of the Panel from the Executive. The recommendations in section 2 seek to deal with this matter and also ensure efficiency of Council business by better aligning any appropriate Council business to this committee, where necessary.
- 3.2. At present, the role of Audit Panel is to provide input to good corporate governance by providing an independent, effective assurance over the adequacy of the financial management and reporting. Specifically, the terms of reference of the Panel are to: -
- Consider the Audit Plan and review the performance of Internal Audit against this target;
 - Act as a forum for the Audit Commission (external audit) to bring issues to Members attention including both specific reports and general item such as the annual audit and inspection letter;
 - Enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;
 - Arrange proper stewardship of public funds;
 - Consider reports of audit activity together with specific investigations; and
 - Monitor the Authority's Risk Management Arrangements.
- 3.3. The Audit Panel is currently chaired by the Lead Member of Resources and comprises all Members of the Executive (Cabinet Members) plus the Chair of the Overview and Scrutiny Committee. The s151 Officer and the Chief Executive are also members of the Audit Panel.
- 3.4. The functions outlined above have been captured in the terms of reference of the proposed entity with minor changes to reflect any good practice outlined in the guidance from CIPFA and to take account of changes in nomenclature.

4. Proposals

- 4.1. The establishment of an Audit Committee will fulfil financial governance requirements and provide a formal Council committee based on proportional representatives of members comprising 4 members from the majority group and 3 members from the minority groups. The introduction of members from the minority groups will increase the independence of the Audit Committee.
- 4.2. At present, the Council holds the responsibility to make arrangements for the proper administration of its financial affairs etc, but it would appropriate to delegate this duty to the Audit Committee save for the appointment of the statutory Chief Finance Officer which should remain a duty of the Council and it is so recommended.
- 4.3. The Audit Committee is also the most appropriate body to receive and approve the council's annual financial statements which at the moment, rests with the Pensions and Accounts Committee. Under the proposals outlined in this paper, the specific requirement for the Pensions and Accounts Committee "To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be)" would transfer to the Audit Committee and the Pensions and Accounts Committee renamed as the Pensions Committee.

5. Comments of the Chief Financial Officer

- 5.1. The Chief Finance Officer has noted the contents of the report and has no further comments to make.

6. Comments of the Assistant Chief Executive (Legal)

- 6.1. Pursuant to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) the duty to make arrangements for proper administration of financial affairs and the duty to approve the Council's statement of accounts etc are non-executive functions.
- 6.2. Under section 101 Local Government Act 1972 the Council may arrange for the discharge of its functions by a committee and pursuant to Section 15 Local Government and Housing Act 1989 the committee seats should be allocated to the political groups in proportion to the political breakdown of the Council (as far as reasonably practicable).

7. Equal Opportunity Considerations

- 7.1. There are no specific Equal Opportunities issues arising from this report.

8. Anti-Poverty Considerations

8.1. There are no specific anti poverty issues arising from this report.

9. Risk Management Implications

9.1. These are no specific risk management issues arising from this report.

10. Sustainable Action for a Greener Environment (SAGE)

10.1. There are no specific SAGE implications.