

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 16 NOVEMBER 2004

AUDIT COMMITTEE PRINCIPLES

Report by the Executive Head of Finance

1 PURPOSE

To review procedures in place to ensure that the Council's audit committee principles are in line with best practice.

2 BACKGROUND

The CIPFA in Scotland Directors of Finance Section has published a guidance note on Audit Committee Principles in Local Authorities in Scotland. This is designed to define what audit committee principles are whilst recognising that each local authority needs to reflect its own style of operation in how they are applied.

3 THE PRINCIPLES

The guidance indicates that there are three fundamental elements which define the expression "audit committee principles". Specifically there should be effective mechanisms in place to provide;

- (i) independent assurance of the adequacy of the risk management framework and the associated control environment within the authority;
- (ii) independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and its control environment; and
- (iii) assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.

A clear view was expressed in the McIntosh report that committees should be established to give effect to these mechanisms and to monitor their effectiveness.

Although the guidance is intended to deal with the application of audit committee principles and makes no assumption that authorities will have an audit committee, the guidance is clear that the existence of a dedicated audit committee or equivalent, to give effect to the implementation of audit committee principles is considered to be best practice.

4 GOOD PRACTICE MATRIX

The guidance includes a good practice matrix which highlights elements of good practice grouped against the three fundamental principles. Appendix 1 shows the Council's current position on these. It is clear that a degree of compliance with most of the good practice elements can be shown. It is considered however that the current arrangements whereby the audit function lies within the remit of the Corporate Governance Committee might be further improved by the establishment of a separate Risk and Audit Scrutiny Group. This would replicate for control and risk issues, the level of scrutiny currently in place for financial control through the Budget Scrutiny Group and for Best Value and Performance through the agreed Performance Review Group and effectively ensure that a consistent approach is in place to cover all of the elements of the three fundamental principles.

The matrix includes a number of possible actions linked to this proposal which would ensure that the Council's arrangements for the involvement of elected members in the application of audit committee principles and for strategic risk management reflect best practice.

The proposed remit and membership of any Risk and Audit Scrutiny Group is shown below;

Membership

- The Group would consist of 7 Councillors and the Chief Executive and Executive Head of Finance.
- Composition of the Group would reflect the political balance of the Council.
- The Group would be chaired by the Chair of the Corporate Governance Committee.
- The minutes of the Group would be reported to the Corporate Governance Committee.

Remit

- Consideration and ongoing monitoring of the operational and strategic audit plans of both Internal and External Audit.
- Review of audit performance.
- Review of the annual audit certificate and the annual report to Members by the External Auditor.
- Monitoring and review of implementation of audit recommendations.
- Ensuring the existence of and compliance with an appropriate Corporate Risk Management strategy.

5 RECOMMENDATION

It is recommended that members;

- (i) Recommend to the Council the establishment of an Risk and Audit Scrutiny Group.
- (ii) Consider the membership and remit of the group and make appropriate recommendations to the Council.
- (iii) Otherwise note the contents of this report.

LIST OF BACKGROUND PAPERS

Audit Committee Principles in Local Authorities in Scotland – A Guidance Note

For further information in any matter contained within this report please contact, Alex McPhee, Executive Head of Finance. Telephone (01563) 576300.

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Executive Head of Finance

AMcP/JP
18 October 2004

APPENDIX 1 - CIPFA GUIDANCE ON AUDIT COMMITTEE PRINCIPLES IN LOCAL AUTHORITIES IN SCOTLAND

OBJECTIVE	GOOD PRACTICE	CURRENT POSITION	PROPOSED FURTHER ACTION
An audit committee which demonstrates by the way that it is structured and organised that it is effective	A formally constituted committee, reporting directly to Council and generally meeting in public.	The audit committee function is included within the terms of reference of the Corporate Governance Committee.	Consider the establishment of an Risk and Audit Scrutiny Group (RASG) reporting to the Corporate Governance Committee. This would allow more detailed scrutiny of audit and risk issues than is possible in a committee. further enhance the current arrangements for the scrutiny of audit and risk issues.
	Adherence to clear terms of reference.	Terms of reference included within the Scheme of Delegation and Administration 1 April 2004.	Determine terms of reference for the RASG if it is agreed that this should be established.
	Membership which generally includes at least as many members drawn from outwith the administration as the political balance would suggest.	Committee composition is in line with political balance of the Council.	Determine membership arrangements
	Effective training and development for all involved in the process.	No formal audit training provided.	Appropriate audit training to be provided to RASG members.
	Agenda papers submitted in good time to enable all members and officers to review them properly.	Procedures are in place to ensure that all agenda papers are submitted and circulated in good time.	No further action required.
	Regular attendance by appropriate senior officers of the Council, the Head of Internal Audit (HIA) and the External Auditor.	Appropriate senior offices are always present. The HIA is present when internal audit reports are on the agenda. There is a standing invitation to the External Auditor to attend committee meetings.	Determine the membership and officer attendance whether HIA and External Auditor should be full members of the Group.for the proposed RASG.

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OBJECTIVE	GOOD PRACTICE	CURRENT POSITION	FURTHER ACTION
<p>Principle 1: The Control Environment Independent assurance of the adequacy of the risk management framework and the associated control environment within the authority</p>	Consideration of Internal Audit periodic plan & strategy.	Internal Audit plans and annual reports are presented by the HIA for consideration by the committee. External Audit plans and reports are presented by the Executive Head of Finance for consideration by the Council.	The Group would consider reports similar to those already available but there would be more opportunity to examine these in greater detail. Audit reports would be presented by the appropriate auditor
	Monitoring of achievement of internal audit plan.	Included within Internal Audit Annual Report and Mid-Year Report.	
	Review of (summary/selection of) audit reports, main issues arising and implementation of recommendations.	Included within Internal Audit Annual Report and Mid-Year Report.	No further action required.
	Ensuring that risk assessment has been carried out by the HIA.	Included within Internal Audit Annual Plan.	No further action required.
	Review of annual report and assurance statement to committee from HIA.	Included within Internal Audit Annual Report.	No further action required.
	Existence of strong/effective relationship between external audit, inspection agencies and internal audit.	This already exists and is actively encouraged by the Chief Executive.	No further action required.
	Ensuring that the value of the audit process is actively promoted.	The role and the importance of audit is recognised in reports presented to the committee.	The establishment of the Group would provide assurance on this to members.reinforce this.
<p>Principle 2: Risk Related Performance 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</p>	Consideration of the effectiveness of the corporate risk assessment process.	Report on Strategic Risk Management to be considered by the Corporate Governance Committee November 2004.	Annual report on strategic risk management to be presented to the RASG by the Chief Executive.
	Consideration of significant risk related performance issues raised by auditors or other inspectors.	Included in the audit reports presented for consideration by the committee.	No further action required.
	Monitoring of implementation of improvement action plans.	Actions are allocated to individual senior officers. Executive Directors will alert service committees on progress in specific areas.	No further action required.

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OBJECTIVE	GOOD PRACTICE	CURRENT POSITION	FURTHER ACTION
<p>Principle 3: Annual Accounts and the External Auditor</p> <p>Standard Assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.</p>	Review of audit certificate and consideration of matters arising from audit.	These matters are included in an annual letter from the External Auditor to the Full Council.	<p>The Group would be in a position to devote more time to any significant issues arising, to seek assurance on progress with action plans and to request clarification from External Auditor and/or relevant director as required.</p>
	Consideration of annual report to members from external auditor and monitoring and implementation of agreed action plans.	Monitoring and implementation of action plans is seen as a responsibility of the Corporate Management Team.	
	Consideration of external audit reports, main issues arising and implementation of recommendations.	Included in the audit reports presented for consideration by the committee.	