



## **Proposal to Establish an Audit and Accounts Committee**

### **RECOMMENDATION**

- 1.1 To establish an Audit and Accounts Committee with the membership and terms of reference as set out in Appendix 2.
- 1.2 To dissolve the Special Purposes Committee and appoint its current chair, vice chair and members to the Audit and Accounts Committee, with effect from 1 August 2005.
- 1.3 To agree that the initial meeting of the Committee will take place in September and will include decisions on member training and a forward programme of work.

### **SUPPORTING INFORMATION**

- 2.1 For a number of years the Audit Commission has tried to encourage councils to regularly review their procedures for establishing effective corporate governance particularly, issues relating to Audit.
- 2.2 This Council has periodically reviewed its arrangements. It has previously concluded that as, according to the Council's Constitution, the Cabinet should be responsible for monitoring performance, and Internal Audit is an activity reviewing the performance of systems and governance arrangements, there has been no need to establish a separate audit committee. Reports summarising the results of Internal Audit's review work are brought before Council Cabinet and the Scrutiny Management Commission on a periodic basis and the Council Cabinet also approves the Annual Audit Plan. This is provided for within Financial Procedure Rules and continues the practice established in 2003/4.
- 2.3 On 7 June 2005 the Audit Commission published guidance on a new use of resources assessment which will part of the CPA assessment framework. The use of resources assessment focuses on financial management, and links to the strategic management of the authority. It looks at how financial management is integrated with strategy, and examines how corporate management supports Council priorities and delivers value for money. The assessment will be carried out annually, as part of each Council's external audit. The Council needs to submit its assessment of how it considers it meets the resources framework by 31 July 2005. The Council will be unable to be classified as an 'excellent' authority overall, if it fails to achieve at least a Level 3 against the use of resources assessment as a whole.

2.4 One of several elements of the use of resources assessment is that the Council must demonstrate how well its internal control environment enables it to manage its significant business risks, which includes providing evidence that the Council reviews and reports on its system of internal control and that it has an audit committee or equivalent and an internal audit function. The annual internal audit report presented to Cabinet on 12 July 2005 acknowledges that an audit committee would facilitate more extensive reporting to members of internal control issues and viewed the establishment of such a committee positively.

2.5 The Audit Commission's 1996 publication 'Called to Account' identified that at that time, only 8% of local authorities had audit committees. It gave the following as the main areas where an audit committee could assist with corporate governance within a local authority:

- Raising the profile of internal controls
- Development of an anti-fraud culture through receiving anti-fraud policies and statements
- Reviewing financial procedures and their operation
- Agreeing audit plans and monitoring delivery
- Monitoring audit performance including time of responses and implementation of recommendations

This list could be extended, given developments in local government over the past nine years, for example the emergence of risk management as a corporate issue.

2.6 The Council must demonstrate the following in relation to audit committees as part of the requirements to achieve a CPA use of resources score at the levels below:

Level 2	Level 3	Level 4
<p>An appropriate member group has responsibility for review and approval of the Statement on Internal Control and considers it separately from the accounts.</p> <p>There is no audit committee but the core functions of an audit committee have been identified and are being undertaken by a member group.</p>	<p>There is a specific member group (such as an audit sub-committee or member panel) which has audit and governance issues as the principal responsibility in its terms of reference.</p> <p>The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment.</p>	<p>There is an audit committee which is constituted as a full committee of the council and is independent of both the Executive and Scrutiny functions.</p> <p>The council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime.</p> <p>Audit committee members are provided with specific training relevant to their responsibilities. The audit committee has terms of reference which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the Council</p>

- 2.7 In summary, to achieve Level 3 or 4 the Council must establish an independent Audit Committee with a forward looking programme of meetings and adequately trained members.
- 2.8 Taking all this into account, it is proposed that an Audit and Accounts Committee be established as a full committee of the Council with scheduled meetings four times a year. As the Committee will be a committee of Council, it will be independent of the executive and scrutiny functions and both executive and non-executive members can be appointed to it. The committee should consist of 9 members with the seats allocated according to the proportionality rules. Full Council will appoint the Chair. It is proposed that the terms of reference set out in Appendix 2 be adopted.
- 2.9 The first meeting of the Committee is proposed for September 2005. It is intended that this first meeting should at a minimum:
- Confirm that the Committee agrees with its terms of reference and the basis on which it is to meet
  - Confirm a forward programme of work for the Committee, a provisional version of which is given in Appendix 3
  - Consider any specific reports consistent with the forward programme
  - Consider and agree a programme of appropriate training for members
  - Consider a programme to revise and update the Council's financial procedure rules
- 2.10 The terms of reference of the proposed Committee also include a responsibility to review the processes supporting corporate governance within the Council, as this is closely allied to the internal control framework. The Committee as constituted could also take on the functions of the Special Purposes Committee in relation to the annual accounts and member remuneration, and is named accordingly.
- 2.11 It is therefore also proposed that the Special Purposes Committee be dissolved and its functions absorbed into the terms of reference for the Audit and Accounts Committee. Membership could remain the same with Councillor Burgess as Chair. The Special Purposes Committee is meeting in July and the change cannot therefore take effect before the end of July.
- 2.12 The full membership of the Committee would be:

Chair – Councillor Burgess

Vice-Chair – Councillor Hickson

Councillors Care, Graves, Jones, Redfern, Roberts, Smalley and Williamson

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<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 – Implications
	Appendix 2 – Audit and Accounts Committee – Terms of Reference
	Appendix 3 – Audit and Accounts Committee – Provisional Programme of Work



<b>IMPLICATIONS</b>
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**Financial**

- 1.1 By replacing the Special Purposes Committee with an Audit and Accounts Committee, the additional resources required to service meetings will be minimal providing that the Committee meets no more than four times a year. The extra management and audit staff input needed to support reports to the Committee will be met from existing staffing resources within the Finance Directorate.

**Legal**

- 2.1 It is proposed that the Audit and Accounts Committee will operate in accordance with the provisions set out in the Council's Constitution.

**Personnel**

- 3.1 There will be an expectation that appropriate officers will attend meetings of the Audit and Accounts Committee to present reports and answer questions.

**Equalities impact**

- 4.1 None.

**Corporate objectives and priorities for change**

- 5.1 The proposal furthers the priorities of **working towards improving customer service, in the city centre and locally, working towards minimising increases in Council Tax and increasing value for money from our services, improving business processes and the use of ICT**

## **Audit and Accounts Committee Terms of Reference**

### **Composition**

Membership of the Audit and Accounts Committee shall comprise 9 Members to include: the Leader of the Council; the Deputy Leader of the Council; the Chair of the Scrutiny Management Commission; the Leader of the Main Opposition Group; plus 5 other Members.

### **Terms of Reference**

#### **Internal and External Audit**

1. To approve and review the annual Internal Audit Plan
2. To receive External Audit reports and opinions, including annual and interim external audit reports.
3. To receive quarterly updates from Internal Audit on Internal Audit findings, opinions and adequacy of management response to Internal Audit advice, recommendations and action plans.
4. To receive, on an exception basis to be determined by the Committee, details of specific Internal Audit findings and the management responses to these findings.

#### **Risk Management**

5. To approve and review the Council's risk management policy and strategy
6. To review the content of the strategic risk register, the adequacy of associated risk management arrangements and the arrangements for departmental risk registers.

#### **Internal Control Arrangements and the Statement on Internal Control**

7. To approve the proposed Statement on Internal Control - SIC - and review the procedures followed in its completion and supporting documentation.
8. To review the effectiveness of internal control across the organisation and the adequacy of action taken to address any weaknesses or control failures.

#### **Anti-Fraud and Corruption Arrangements**

9. To approve and review Anti-Fraud and Corruption policies and strategies and the effectiveness of their application throughout the Authority.

#### **Corporate Governance**

10. To review the Corporate Plan and the Best Value Performance Plan to ensure consistency with the internal control and risk management framework.
11. To review internal rules, regulations and policies of relevance to corporate governance, including the Local Code of Corporate Governance and to receive the Corporate Governance Health Check.

12. To review the adequacy of financial and contract procedure rules and to make recommendations for changes to Council.

### **Accounts**

13. To approve the annual Statement of Accounts, including subsequent amendments.
14. To consider the External Auditor's report on the audit of the annual financial statements.
15. To be responsible for any matters arising from the audit of the Council's accounts, including the auditor's opinion on the accounts, identification of any misstatements, comments on the accounting and internal control systems and qualitative aspects of accounting practices and financial reporting.

### **Remuneration**

16. To carry out all powers and duties in respect of appointments to the Independent Remuneration Panel on Members' Allowances.

**Audit and Accounts Committee  
Provisional Programme of Work 2005/6**

**September 2005**

Review Audit Committee Terms of Reference  
Decide training requirements of Committee members  
Quarterly Internal Audit Report  
External Audit Plan for current financial year  
External Audit - SAS610 report  
Accounts – post audit re-approval (if necessary)  
External Audit report on BVPP and BVPI

**December 2005**

Quarterly Internal Audit Report  
Risk management update  
External Audit Management Letter for prior year  
Anti-fraud and corruption strategy – review  
Financial Procedure Rules - review

**March 2006**

Internal Audit Strategy and Annual Plan  
Quarterly Internal Audit Report  
Local Code of Corporate Governance

**June 2006**

Internal Audit Annual report  
Statement on Internal Control  
Statement of Accounts  
Risk Management Annual Report  
Risk Management Strategy - review  
External Audit interim report

Internal Audit reports (by exception as and when required may be presented to members on individual key issues)