

## **AUDIT COMMITTEE PRINCIPLES IN LOCAL GOVERNMENT**

### **POSITION STATEMENT**

This statement reflects the views of CIPFA's Audit Panel on the role of audit committees in local government. It emphasises the importance of audit committees being in place in all principal local authorities.

Audit committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Guidance on implementing and running audit committees in local government lags behind other sectors. CIPFA will therefore be publishing further guidance, drawn from practical examples and experience of other parts of the public sector in 2005.

The way in which an audit committee is organised will vary depending upon the specific political and management arrangements in place in any local authority. CIPFA's further guidance will explore how audit committees relate to local authorities different arrangements for managing and governing themselves. It is not therefore appropriate to prescribe any particular model. But there are features that should be common to all:

- 1 A Statement of Purpose
- 2 Core Functions
- 3 Features
- 4 Structure and Administration

#### **1 A Statement of Purpose**

The local authority should formally approve a Statement of Purpose, along the following lines:

*The purpose of an Audit Committee is to 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.*

## 2 Core functions

Audit Committees will:

- Approve (but not direct) internal audit's strategy, plan and performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Consider the reports of external audit and inspection agencies.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control<sup>1</sup>, properly reflect the risk environment and any actions required to improve it.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- 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.

## 3 Features

Good audit committees will be characterised by:

- Strong chairmanship – displaying a depth of skills and interest<sup>2</sup>

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<sup>1</sup> Extract from CIPFA's guidance *The Statement on Internal Control – meeting the requirements of the Accounts and Audit Regulations 2003*. "The Accounts and Audit Regulations 2003 state that the relevant body is responsible for ensuring that the body (authority) has "a sound system of internal control". Members and member committee committees should therefore establish procedures to provide sufficient assurance for them to be able to attest to this".

<sup>2</sup> There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest, and knowledge in financial and risk management, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

- Unbiased attitudes - treating auditors, the executive and management equally
- The ability to challenge the Executive (leader/chief executive/mayor or whatever combination) when required
- A membership that is balanced<sup>3</sup>, objective, independent of mind, and knowledgeable.

#### **4 Structure and Administration**

Although no single model of committee is prescribed, all should:

- Be independent of the Executive and Scrutiny functions.
- Have clear reporting lines and rights of access to other committee /functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Meet regularly – at least four times a year with a quorum, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet separately with the external auditor at least once a year.
- Include, as regular attendees, the Responsible Finance Officer, Chief Executive, Head of Internal Audit and Appointed External Auditor and Relationship Manager. Other attendees may include the Monitoring Officer (for standards issues) and the Head of Resources (where such a post exists) The committee should have the right to call any other officers or agencies of the council as required.
- Be properly trained to fulfil their role<sup>4</sup>.

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<sup>3</sup> The political balance of a formal committee of an authority will reflect the political balance of the council. However, balance in terms of apolitical attitudes is as important.

<sup>4</sup> Further guidance will be available on the skills, knowledge and personal attributes required of committee members but key areas for training would include financial and risk management, auditing and accounting concepts and standards, regulatory requirements for financial reporting, and corporate governance.