



REPORT

Board	PUBLIC FINANCE AND MANAGEMENT		
Venue	Robert Street	Date	12 May 2005
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Subject	Audit Committees in Local Government (Information item)		

PURPOSE

To update the Board on progress in developing the Institute's views on the generation of audit committees in local government

1 BACKGROUND

- 1.1 At the last meeting of the Board, members considered for information a position statement on Audit Committees in Local Government. The Board welcomed the statement and were asked to send detailed comments to Policy and Technical division. The Board considered that the statement that the audit committee meet independently with external audit should be clarified to say that this would be a meeting of elected members excluding any officers of the authority. The Board were happy for the statement to be issued to treasurers' societies and others for consultation.
- 1.2 This report is for members to note. It summarises the results of the consultation, provides responses from the secretariat to the key comments received, and sets out the next steps to be taken towards the development of more detailed, practical guidance.

2 THE CONSULTATION EXERCISE

- 2.1 The position statement, together with an explanatory letter, was circulated to all treasurers' societies, a wide range of Heads of Internal Audit, the ODPM, SOLACE and the Audit Commission (the Audit Commission has engaged at an early stage in developing the position statement).
- 2.2 Responses were received from around a dozen individual practitioners, the Society of District Council Treasurers, SOLACE and from two members of PFMB. The Audit Commission's comments were received just prior to the consultation.

3 RESPONSES TO CONSULTATION

- 3.1 Overall, respondees welcomed the position statement and the proposal for CIPFA to develop more detailed guidance in this area. In particular, the Audit Commission was fully supportive of the stand taken in the statement, and intends to include the operation of an effective audit committee as a source of evidence for CPA in future.
- 3.2 However, several respondees felt that the statement was too prescriptive, including the Society of District Council Treasurers, who oppose the proposal that all authorities should have an audit committee. This theme, and other key issues, are summarised in the table at Appendix A together with the secretariat's response.

4 SPECIFIC COMMENTS

- 4.1 Underneath the main themes, detailed comments were received on issues such as the number of meetings a year, the minimum number of meetings a year, responsibilities for external audit and rights of access by auditors to the Committee. These will all be developed in more depth as part of the guidance.

5 THE WAY FORWARD

- 5.1 The secretariat will discuss with the Audit Panel the results of the consultation and the extent to which the position statement needs to be amended.
- 5.2 The secretariat is commissioning work to explore the key themes set out in this paper and to provide detailed, practical guidance to assist local authorities to put in place effective audit committees. This guidance will draw upon research from practitioners in authorities of different sizes, and also on good practice, which has already been developed in other areas of the public sector. This work will be undertaken during May and early June with a view to publishing guidance in the summer.

RECOMMENDATION

The Board should receive this paper for information.

KEY THEMES FROM CONSULTATION ON AUDIT COMMITTEE PRINCIPLES PAPER

Key Theme	Policy and Technical secretariat response
<p>It is not appropriate to be prescriptive that all authorities should have an Audit Committee. Councils should be left to decide appropriate committee arrangements within the framework of the Local Government Act 2000</p>	<ul style="list-style-type: none"> • We feel strongly that CIPFA should continue to emphasise the importance of Audit Committees being in place. • Across the public and private sectors, Audit Committees are increasingly commonplace and are regarded as a key element of good corporate governance. Local government appears to be lagging behind other sectors. • The functions of an Audit Committee, as set out in the statement, are best delivered by a separate body of members of the council • Beyond this level of prescription, the exact model for an Audit Committee needs to reflect the specific political and management arrangements of the authority – and its size¹
<p>Should the Audit Committee be a formal committee of the council? Further, could it be called something else?</p>	<ul style="list-style-type: none"> • Although calling it by another name might make it easier to place the function, and perhaps to appoint to it, we believe that committee status guarantees a proper profile for the functions. This view is specifically endorsed by the Audit Commission.
<p>How can the principles outlined be made to work with the current executive and scrutiny models within local government?</p>	<ul style="list-style-type: none"> • We feel that there may be a tendency for these functions to be diluted, or to be less transparent when combined with the Scrutiny function. • We appreciate that this is not a simple issue, and so the next stage of guidance will explore how such arrangements might work in practice.
<p>How can an Audit Committee be effective?</p>	<ul style="list-style-type: none"> • We recognise that authorities struggle to find sufficient members with the financial awareness, skills and competencies to deliver the functions, particularly where such skills are currently employed in scrutiny or in the executive. • We accept that this is a key issue, and one where training, skills and competence is equally as important as organisational status. We will develop material on this in our practical guidance. • Another option to also be explored is the co-opting of experienced and knowledgeable people from outside the authority.
<p>How would the Committee's role relate to the Role of the Finance Director in Local Government?</p>	<ul style="list-style-type: none"> • Audit Committee functions have a direct bearing on the legal responsibilities of this position. • We see these functions as being complementary and supportive to the role, helping to ensure effective financial administration through independent assurance and effective challenge. But we will again explore this issue in more depth in our guidance.

¹ CIPFA's more detailed, practical guidance will involve discussion with a wide range of practitioners across different types of authorities including those from small district councils.