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**MEETING:**                   **AUDIT COMMITTEE**

**DATE:**                      **20 September 2006**

**SUBJECT:**                 **MEASURING THE EFFECTIVENESS OF THE AUDIT  
COMMITTEE**

**REPORT FROM:**          **Director of Finance and E-Government**

**CONTACT OFFICER:**   **M Owen – Director of Finance and E-Government**

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**TYPE OF DECISION:**   **Key**

**REPORT STATUS:**       **FOR PUBLICATION**

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**PURPOSE/SUMMARY:**

This report reviews the role, functions, features and structure of the Audit Committee within Bury MBC against recommendations issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). It contains a self-assessment checklist and recommendations for meeting the CIPFA guidance.

**OPTIONS AND RECOMMENDED OPTION (with reasons):**

The Committee is asked to:

- i)       approve the Statement of Purpose set out in section 2 of the report whilst noting the practical approach to risk management explained in paragraph 2.3;
- ii)      adopt the core functions set out in section 3
- iii)     Recommend that the Statement of Purpose and Core Functions be incorporated into the review of the Council Constitution that is currently being undertaken
- iv)     Consider options for providing training to members of the Committee as set out in paragraph 5.5
- v)      endorse the self-assessment contained at Appendix A

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## IMPLICATIONS -

### Financial Implications and Risk Considerations

There are no direct resource implications arising from the report.

### Corporate Aims/Policy Framework:

Do the proposals accord with the Policy Framework? Yes

Are there any legal implications? No

### Considered by the Monitoring Officer?

Yes. No specific comments

### Statement by Director of Finance and E-Government:

The recommendations of the report are fully endorsed.

### Staffing/ICT/Property:

None specifically

### Wards Affected:

All

### Scrutiny Interest:

All but primarily the Resource and Performance Scrutiny Panel.

## TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
	Chair		
Scrutiny Panel	Executive	Committee	Council

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## 1.0 INTRODUCTION

- 1.1 As part of it's document 'Audit Committees; Practical Guidance for Local Authorities' CIPFA's Audit Panel have issued a Position Statement on the role of audit committees in local government which emphasises the importance of audit committees being in place in all principal local authorities.
- 1.2 CIPFA stress that audit committees are a key component of corporate governance, saying that 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.

1.3 In providing this guidance CIPFA recognise that 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. As a result CIPFA accepts that it is not therefore appropriate to prescribe any particular model but they set out a number of features that should be common to all. These include:

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

1.4 This report considers how the arrangements in Bury compare to the CIPFA guidance and makes recommendations where it is felt that gaps exist.

## 2.0 A STATEMENT OF PURPOSE

2.1 The guidance recommends that a local authority should formally approve a Statement of Purpose for its Audit Committee, 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.*

2.2 At present Bury does not have a Statement of Purpose for its Audit Committee, instead the Constitution contains a number of delegations to the Committee:

1. *To approve, monitor and review internal and external audit plans and associated issues.*
2. *To receive and consider, on a quarterly basis, details of internal audit reports undertaken by the Internal Audit Section.*
3. *To take appropriate action to ensure the implementation and review of audit recommendations.*
4. *To deal with any appropriate matter referred to the Committee by other bodies.*
5. *To approve the statement of accounts.*

2.3 It is recommended that the authority should adopt the CIPFA role statement. However, it is worth pointing out that in practical terms the issue of the adequacy of the risk management framework has been delegated by the Executive to the Corporate Risk Management Group (CRMG). The Audit Committee is still able to discharge its role in this area by virtue of the fact that

the Chair is a member of the CRMG and also through its input to the Statement of Internal Control.

### **3.0 CORE FUNCTIONS**

3.1 The CIPFA guidance recommends that audit committees should have as their core functions to:

- 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, properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit's strategy, plan and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the head of internal audit.
- Consider the reports of external audit and inspection agencies.
- 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.

3.2 In practice this provides a good summary of what the Audit Committee in Bury does and so it is recommended that Members adopt the above list as their core functions with the addition of the following items from the existing list of delegations:

- To take appropriate action to ensure the implementation and review of audit recommendations.
- To deal with any appropriate matter referred to the Committee by other bodies.

3.3 The approach to risk management is also subject to the comments set out in paragraph 2.3 above.

### **4.0 FEATURES**

4.1 The CIPFA guidance recommends that good audit committees will be characterised by the following features:

- A strong chair – displaying a depth of skills and interest.
- 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, objective, independent of mind, and knowledgeable.
- 4.2 It is felt that the existing Audit Committee has all of these features. Indeed, with the appointment of an independent member onto the Committee from outside of the Council, it is felt that Bury exceeds best practice.

## **5.0 STRUCTURE AND ADMINISTRATION**

5.1 Although no single model of audit committee is prescribed within the CIPFA guidance, all should:

- Be independent of the executive and scrutiny functions.
- Have clear reporting lines and rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. 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.

5.2 Bury meets all of the above requirements with the exception of the chief finance officer attending all meetings of the Committee. However Members should be aware that it was a conscious decision taken when the Committee was first established that the Director of Finance would not attend unless absolutely necessary, or unless requested to by the Committee, in order that the independence of the Head of Audit and Risk Management (HoARM) be boosted. It is for this reason that most reports come in the name of the HoARM and not the Director or the Executive Member (as would be the case in most Committees).

5.3 Having said this, it is intended that the newly appointed head of Strategic Finance, the Director's managerial deputy, will attend future meetings of the Committee.

5.4 Also, there is currently no provision for the Committee to meet privately with the external auditors and it is intended that this facility be offered to the Audit Commission and/or KPMG with effect from the current financial year.

5.5 Finally, it is recognised that arrangements for training members of the Committee need strengthening and it is suggested, for discussion, that a short session be provided at the start of each meeting covering items such as financial and risk management, auditing and accounting concepts and standards, regulatory requirements for financial reporting, and corporate governance.

## **6.0 SELF-ASSESSMENT**

6.1 Taking on board the comments and recommendations made above, a CIPFA self-assessment check-list has been completed and is attached at Appendix A. This shows that the authority meets all of the requirements set out in the guidance with one minor exception, assessing Members' skills and experiences. The Head of Organisational Development has been asked to consider this on a wider 'Member development' basis as part of the remit of the Elected Member Development Group and in the meantime training will be provided covering the aspects of the Committee's work as set out in paragraph 5.5.

**Mike Owen**  
**Director of Finance and E-Government**

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### ***Background documents:***

Audit Committees : Practical Guidance for Local Authorities (CIPFA, 2005). Copy available from the Director of Finance and E-Government

### ***For further information on the details of this report, please contact:***

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