

Constitution Working Party

Report Title	Creation of an Audit Committee	
Key Decision	No	Item No. 4
Contributors	Executive Director for Resources	
Class	Open	Date: 15 March 2007

1.0 Executive Summary

1.1 Public Accounts Select Committee (PASC) has discussed the setting up of an Audit Committee at its meetings on the 25 July and 21 November 2006. On balance the recommendation put forward by Officers is to establish an independent audit advisory panel. The pros and cons of such a panel were debated at PASC and it was agreed that a report setting out options be put to the Constitution working party.

2.0 Recommendations

- 2.1 To set up a separate Audit Panel
- 2.2 To have regard to the views of Public Accounts Select Committee when setting up arrangements for the Audit Panel
- 2.3 Decide and agree the format and membership of that Committee

3.0 Background

- 3.1 At the 25 July PASC there was a general discussion on the role of PASC in relation to the expectations that it carries out some of the functions of an Audit Committee. There has been consideration by CIPFA of the role of Audit Committees in local government generally. CIPFA conclude that good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. CIPFA also conclude this is best delivered by an audit committee independent from the executive and scrutiny functions.
- 3.2 On 21 November PASC considered a report which set out options for the setting up of an audit committee. This report is attached as Appendix 1.

4.0 Views of Public Accounts Select Committee

- 4.1 The view of PASC was to have a separate Audit Committee established. However, there were several views expressed about the membership of that Committee and after debate about the pros and cons of each model the Committee agreed that a model comprising

independents and members was preferable. The minutes of the meeting reflect, 'In discussion, the Committee said that they did not agree to go for an independent audit advisor panel model, and preferred to take a middle ground which includes a combination of backbench members (excluding the Executive) and external advisors.'

5.0 Arrangements of other Boroughs

5.1 A recent survey of London boroughs to which there were 14 responses showed that the majority of London boroughs now have a separate Audit Committee.

5.2 A review of Council websites and CIPFA Internal Audit benchmarking has revealed that membership varies between 5 and 10 members and the membership varies from wholly councillors to a mixture of independent / co-optees / councillors.

6.0 Options

6.1 There are various options which could be considered :

1. Continue with PASC carrying out the functions of an audit committee
2. Separate audit committee with members drawn from the authority
3. A mixed audit panel of members drawn from the authority and independent members
4. An independent audit panel

6.2 It is expected the Executive Director for Resources and the Audit and Risk Manager would attend the meetings, with other Council officers as required.

6.3 The external auditor would attend the meeting as required and would have right of access to the Chair at any time.

6.4 Typical workload would be as set out in section 5.4 of appendix 1.

7.0 Frequency of meetings

7.1 Whichever option is approved the audit panel or committee would be expected to meet 4 times a year at appropriate times in the reporting and financial cycle. Typically this would be January, March, June and September.

8.0 Terms of Reference

8.1 It is expected that the terms of reference will be as outlined below:

The Audit panel/committee will report to Council on an annual basis and to the Public Accounts Select Committee and the Executive Committee on a half yearly basis.

- 8.2 The panel/committee will exercise the following functions:
1. Review, comment and approve (but not direct) Internal Audit's strategy, plans and resources.
 2. Receive Internal Audit progress reports on a quarterly basis summarising the audit reports issued and performance of the Internal Audit function.
 3. Receive the annual report of the Council's Head of Internal Audit and inspection agencies.
 4. Consider reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame
 5. To consider the external auditor's Annual Plan, relevant reports, and reports to those charged with governance.
 6. Consider external inspection reports and specific reports as agreed with the external auditor.
 7. Consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
 8. To maintain an overview of the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.
 9. To review the Council's assurance arrangements including the Statement of Internal Control.
 10. To approve the Council's annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive.
 11. To Review the external auditors' opinion and reports to members, and monitor management action in response to issues raised by external audit.

9.0 Financial Implications

- 9.1 If the Council decides on a completely Independent Panel then the members of the Panel will be paid a consultancy fee based on their attendance at Panel meetings.
- 9.2 There is currently no provision for a councillor who chairs an audit committee to receive a special responsibility allowance under the Council's Scheme of Members' Allowances. Independent members of an Audit Committee would only be entitled to pay as co-optees, in accordance with the Council Scheme of Members' Allowances which would need to be revised to make provision for this, having regard to the views of the Independent Remuneration Panel.

10.0 Legal Implications

- 10.1 Under the Local Government Act 2000, there is a split between those issues which are reserved to the Council, (whether by full Council or a committee appointed by the Council), and those matters which are reserved to the executive, in Lewisham's case the directly elected mayor or as delegated by him. The law is reflected in a number of regulations, which allocate functions and responsibilities either to Council or to the Mayor. By definition those matters not allocated elsewhere are an executive responsibility and fall to the Mayor to decide.
- 10.2 By virtue of the Local Authorities (Functions and Responsibilities) (England) (Amendment) Regulations 2001 (SI2001/2212) the function of approving the authority's accounts, income and expenditure and balance sheet, or record of payments and receipts is a Council function. By virtue of Regulation 4 of the Accounts and Audit Regulations 2003, (as amended) the Council is responsible for ensuring that the financial management of the authority is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.
- 10.3 The 2003 Regulations (as amended) require the Council at least once a year to conduct a review of the effectiveness of its system of internal control. The results of that review may be considered either by the Council as a whole or by a committee appointed by it. Following that consideration, a statement of internal control is approved and signed by the person presiding.
- 10.4 Under the same Regulations the Council must review the effectiveness of its system of internal audit. The findings of that review form part of the statement of internal control. This therefore is reviewed either by Council or a committee appointed by it.

- 10.5 The Council's statement of accounts having been prepared in accordance with the Regulations must be considered either by the full Council or a committee of it and approved by resolution and signed by the person presiding at that meeting.
- 10.6 The functions specifically referred to in the 2003 Regulations (as amended) may therefore be delegated by the Council to a Committee though in practice in Lewisham they are fulfilled by the council itself.. An audit committee would only be able to operate in respect of functions specifically reserved as a non-executive function as identified in these implications.
- 10.7 It is not compulsory to establish an audit committee under the 2003 regulations, and the functions can be carried out by the Council in full session, though members attention is drawn to the CIPFA guidance..
- 10.8 Currently the terms of reference of the Overview and Scrutiny Public Accounts Select Committee (PAC) includes the following:-
- 10.9 To monitor and review the Council's annual audit plan and to receive reports on the outcome of audit and review conducted by the Council's internal and external auditors and/or inspectorates.". By law and by the Council's Constitution the PAC, as other overview and scrutiny committees has its powers limited to the making of recommendations to the Council or Executive, and the overview and scrutiny of decisions and performance. The review of the statement of internal control, the review of internal audit and the signing off of accounts cannot be delegated here. Decisions in relation to those functions, under the present arrangements need to be taken by the full Council as now though it would be entirely appropriate for Council to have regard to the comments of PAC. Any change that might be proposed to the terms of reference of PAC, or in relation to the establishment of an Audit Committee would required formal approval by Council as it would represent a constitutional change".
- 10.10 It would be lawful for the Council to appoint professional advisors in the form of an Advisory Panel to advise it on financial and accounting practice, internal control and internal audit and other more general audit issues, though the Council could not lawfully subjugate its view blindly to that of the Panel. The views of its professional advisors would be a relevant consideration in decisions about such matters.
- 10.11 If an Audit Committee is established as a Council decision making body, the independent members on it would not be entitled to vote . If established as a Panel, effectively advising the full Council it will have no delegated functions and will only be able to make recommendations to full Council in respect of those functions referred to in the Accounts and Audit Regulations 2003 (as amended).

Background Papers

Report to Public Accounts Select Committee – November 2006 (Attached as an appendix)