

## OXFORD CITY COUNCIL

Executive Board -  
Council12 September 2005  
3 October 2005

**Report of** Strategic Director, Finance and Corporate Services

**Title** Establishing an Audit and Governance Committee

**Wards** All

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**Key decision** No

**Lead Member** Cllr Alex Hollingsworth

**Scrutiny responsibility** Finance

**Recommendations**

The Executive Board recommends Council to agree:-

1. To establish an Audit and Governance Committee in place of the existing Audit Committee with powers and duties as set out in Appendix 1 and an indicative meeting timetable as set out in Appendix 2.
2. That the existing Audit Committee's powers and duties are re-assigned as follows-
  - a) Approval of Statement of Accounts – Audit and Governance Committee for recommendation to Council
  - b) Functions relating to local government pensions – add to the Chief Executive's delegated powers
  - c) To make payments or provide other recompense in cases of maladministration – already in effect within the Chief Executive's delegated powers
3. To appoint Members to the Committee and to decide upon its quorum, and to agree that if a quorum is not present when the Committee meets to recommend the Statement of Accounts to Council, Council should itself consider and approve the Statement of Accounts directly.

4. That the Committee Procedure Rules set out in Section 7 of Part 4 of the Constitution should apply to the Committee.

5. That the Constitution be altered to the extent necessary as a result of the establishment of the Committee.

## Summary

This report recommends that Council establishes an Audit and Governance Committee<sup>1</sup>. The committee's remit (Appendix 1) is drawn so that it does not overlap with the work of scrutiny committees.

The Audit and Governance Committee would replace the existing Audit Committee. This is because the existing Committee does not have governance responsibilities and carries out only a small part of the range of audit functions.

## Introduction

"Governance" has steadily risen in importance in private and public sector agendas. The Cadbury Committee (1992) first recommended that private companies establish independent Audit Committees. About half of all English local authorities now have such committees. CIPFA recently released guidance on this area.

## Why we need an Audit Committee

In their last annual audit letter the Audit Commission recommended we establish an Audit Committee.

Governance requirements have been sharply tightened. Authorities are now expected to have robust processes for managing risk and reviewing internal management controls. The Leader of the Council and Chief Executive must jointly sign a statement accepting responsibility for those arrangements. This statement forms the start of our annual Statement of Accounts - and is audited by our District Auditor.

Local authorities are expected to have Audit Committees in place in order to achieve a reasonable CPA standard.

CIPFA have just published a professional standard recommending that Local Authorities establish independent audit committees.

We are in the process of appointing a firm of accountants to provide our internal audit service. The new Committee would also oversee that company's performance.

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<sup>1</sup> For the sake a simplicity I've called it "Audit Committee" from now on.

## **What currently happens**

We have an Audit Committee, but it has a narrow remit - largely limited to approving our Statement of Accounts prior to publication.

In practice the Audit Committee members have taken their role seriously. Members have closely scrutinised our financial statements and have considered management reports from the Audit Commission. Senior members have met to review risk-related issues.

Finance Overview and Scrutiny Committee reviews financial management and performance information.

As S151 Officer I receive copies of all internal audit reports.

## **A new Audit Committee with an expanded remit**

The Audit Committee's remit would include:-

- Overseeing our risk management arrangements (including related risk - based performance measures)
- Reviewing out Statement of Internal Control (and supporting documents/systems).
- Agreeing the Internal and External Audit plans.
- Receiving executive summaries of audit reports, and full copies of "significant" audit reports.
- Quality assessing the work of audit.
- Receiving reports on organisational control issues; e.g. breaches of Financial Regulations.
- Reviewing key financial statements (and formal reports from the Audit Commission) before consideration by Executive Board and/or recommendation to Council.

There are very tight timescales for drafting accounts. In the unlikely event the Audit Committee is not able to consider the Financial Statement, the accounts would go direct to Council for approval.

The proposed remit avoids duplication with the Finance and Overview Scrutiny Committee's responsibilities.

## **Membership**

To be effective an Audit Committee needs to have a range of expertise. Members will need to be properly trained (a half day should be sufficient to start and the training can be arranged in-house). I suggest that the

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Committee consists of seven members with a quorum of five. The Committee should be politically balanced.

### **Other Options**

Finance Scrutiny could take on the role of Audit Committee, however its agenda is already seriously over-stretched.

The Standards Committee could extend its remit to include governance, but the roles are very different, and in any case the Standards Committee has made clear its opposition to this idea.

### **Staffing and Financial implications**

Meetings would initially be quarterly, but there would be scope for additional meetings if they were needed. The Chief Executive, Strategic Director, Finance, Legal and Democratic Services, and Finance & Asset Management Business Managers would also attend.

There would need to be Committee Services support. There is an increase in workload but it can be incorporated.

The financial implications are modest, and can be accommodated within existing budgets.

This report has been seen by:-	
Cllr Alex Hollingsworth	Leader of the Council, Portfolio Holder for Strategic Financial Matters.
Cllr Bob Price	Chair - existing Audit Committee.
Lindsay Cane	Legal and Democratic Services Business Unit
William Reed	Democratic Services Manager
Penny Gardner:	Business Manager, Finance and Asset Management

**AUDIT AND GOVERNANCE COMMITTEE**

**POWERS AND DUTIES**

**Internal Control and Risk Management**

- 1 The Committee shall review the establishment and maintenance of an effective system of internal control and risk management. In particular, the Committee will review the adequacy of:-
  - The annual Statement on Internal Control for inclusion in the Annual Report and all risk and control related disclosure statements, together with any accompanying statement from the Business Manager, Audit and Risk, prior to endorsement by the Council.
  - The strategy, processes, procedures and responsibilities for identifying, assessing and managing key risks facing the Council.
  - Policies for ensuring that there is compliance with relevant regulatory, legal and code of conduct requirements as set out in CIPFA and other relevant guidance.
  - The operational effectiveness of strategies, policies, processes, procedures and standards.
  - The policies and procedures for all work related to fraud and corruption.

**Audit and Risk**

2. To review the internal audit programme, consider the significant findings of Audit and Risk investigations (and management's response), and ensure co-ordination between the Internal and External Auditors.
3. To ensure that the Audit and Risk function (within the resources that must be provided to the Section 151 officer) is adequately resourced and has appropriate standing within the Council.

**External Audit**

4. To consider the appointment of the External Auditor and their fees, as far as the Audit Commission's rules permit.

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5. To discuss with the External Auditor, before the audit commences, the nature and scope of the audit, and ensure co-ordination, as appropriate, with other local authority External Auditors.
6. To review External Audit reports, including value for money reports and annual audit letters, together with the management response.

### **Financial Reporting**

7. Review the annual financial statements before submission to Executive Board, focusing particularly on:-
  - Changes in, and compliance with, accounting policies and practices.
  - Major judgemental areas and significant adjustments resulting from the audit.

### **Statement of Accounts**

8. To consider and recommend Council to approve the authority's Statement of Accounts, income and expenditure and balance sheet or record of receipts and payments (as the case may be).

Appendix 2

**AUDIT COMMITTEE - PROPOSED ANNUAL TIMETABLE**

	<b>Agenda Item/Issue</b>	<b>Mar</b>	<b>June</b>	<b>Sept</b>	<b>Dec</b>
1	Review of risk profile and emerging key risks and management and mitigation of key risks.	*	*	*	*
2	Internal control and the monitoring arrangements of business units, major projects and contracts.	*	*	*	*
3	Governance issues such as: financial losses, propriety issues and legal compliance and contract breaches.	*	*	*	*
4	Approval of Internal Audit Plan and Resources.	*			
5	Review of Audit Commission Plan and Fees	*			
6	Review of Internal Audit and Audit Commission progress reports	*	*	*	*
7	Review of annual accounts progress	*			
8	Agreement of final accounts timetable and plans			*	
9	Receipt of Annual Internal Audit Report		*		
10	Review of Internal Control Statement for Annual Report		*		
11	Receipt of Controls Assurance Verification summary, based on 1-3 above		*		
12	Review of audited annual accounts and financial statements		*		
13	Private discussions with Audit and Risk and Audit Commission			*	
14	Briefing/Update sessions			*	*
15	Review of other reports:				
	Scrutiny Committee and Standards Committee	*		*	
	Chief Executive, Monitoring Officer, Chief Financial Officer (S151)	*		*	
	Best Value, Value for Money, Performance indicators	*	*	*	*
	Changes to Constitution, Policy Framework and Policies.	*	*	*	*
16	Self assessment of Committee's effectiveness				*
17.	Consider and recommend Council on the Statement of Accounts		*		

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