

HERTFORDSHIRE COUNTY COUNCIL

CABINET

MONDAY 13 SEPTEMBER 2004 at 2.00 p.m.

Agenda Item No:

9

ESTABLISHMENT OF AN AUDIT PANEL

Report of the County Secretary

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Executive Member: David Beatty

1. Purpose of Report

To consider establishing an Audit Panel to replace the Audit Committee which was deleted from the Constitution by full Council on 20 July 2004.

2. Background

The Audit Committee has operated as a Scrutiny Committee since the Council adopted the Constitution, though there is no statutory obligation on the County Council to have a Committee as such. Under the system of "Cabinet Government" it is legitimate for the Council to establish a Scrutiny Committee to enquire into the adequacy of internal control systems and to make recommendations for improvements; and also to examine management's responses to audit recommendations.

Recently however, there were two changes in law and guidance which emphasise the primary responsibility of the Cabinet for ensuring adequate internal control systems.

Firstly, the Accounts and Audit Regulations 2003 place on each local authority a *"duty to ensure that its financial management 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"*. This new duty is a Cabinet responsibility; each local authority has to produce a Statement of Internal Control, signed by the Leader and Chief Executive, which describes how the duty will be met.

Secondly, the Audit Commission has introduced a Statement of Auditing Standards (SAS 6.10) which now requires the District Auditor to communicate "to those charged with the governance of the Council" any issues arising from the Annual Audit of Accounts before giving an audit opinion on the financial statements. Although the Audit Committee has until now been the member body with principal contact

with the District Auditor, there is no doubt that it is the Cabinet which is the body “charged with the governance of the Council”.

In the light of these developments the Council on 20 July considered whether it should retain the Audit Committee as a Scrutiny Committee. Having considered the matter it decided that it would be preferable to delete the Audit Committee from the Constitution and invite the Cabinet to reconstitute it as a Cabinet Panel (with responsibility for advising the Cabinet on the matters set out below).

The Council also decided that the scrutiny duties of the Audit Committee be transferred to the Resources Scrutiny Committee.

3. Conclusion

The Cabinet is invited to establish an Audit Panel, comprising 8 members, with the following terms of reference, in order to discharge its statutory responsibilities:-

“To advise the Cabinet, Executive Members and Chief Officers on:

- *the adequacy of internal control systems, including the risk management system*
- *The Statement of Internal Control*
- *financial statements*
- *the internal audit strategy & plan and the implementation of internal audit recommendations*
- *the annual report of the Chief Internal Auditor*
- *the annual external Audit Plan*
- *responses to the District Auditor’s management letter and other reports from the District Auditor.”*

If the Cabinet agrees to this the new Panel could expressly be included in Section 7.5 of the Constitution (Cabinet Panels).

The Cabinet is also invited to appoint a Chairman and Vice-Chairman of the Panel.