

STATUS OF THE AUDIT COMMITTEE

Report of the County Secretary

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1. Purpose of Report

To ask the Council to review the status of the Audit Committee in the light of recent developments; and to propose that the Committee become a Cabinet Panel.

2. Current Status of the Audit Committee

The Audit Committee has operated as a Scrutiny Committee since the Council adopted its new Constitution. Its terms of reference are to scrutinise:

- the adequacy of internal control systems
- financial statements
- the internal audit strategy & plan
- the annual report of the Chief Internal Auditor
- the implementation of Internal Audit recommendations
- the annual external Audit Plan except in so far as it relates to value for money issues (which fall within the remit of the relevant Scrutiny Committee)
- management's response to key issues and recommendations in District Audit and the District Auditor's management letter, except in so far as it relates to value for money issues, which fall within the remit of the relevant Scrutiny Committee.

3. Law and Guidance

There is no statutory obligation on the County Council to have an Audit 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 have been 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”*.

4. Issues for Consideration

In the light of these developments the Council may wish to consider whether it should retain the Audit Committee as a Scrutiny Committee. An alternative would be to reconstitute it as a Cabinet Panel, with responsibility for advising the Cabinet on the matters set out in paragraph 2 above, and also on the new Statement of Internal Control. The Panel could be expressly included in Section 7.5 of the Constitution (Cabinet Panels). The Panel could be of the same size and composition as the current Committee.

If this suggestion were adopted, the Resources Scrutiny Committee would be able to examine any matters concerning internal control systems, or response to audit recommendations, which it wished to investigate.

5. Conclusion

Council is asked to consider whether it wishes to

- a) amend the Constitution to delete the Audit Committee and to
- b) invite the Cabinet to establish an Audit Panel, with a size and composition equal to the current Audit Committee, and with the terms of reference indicated above, in order to discharge its statutory responsibilities.