

FALKIRK COUNCIL

Subject: AUDIT COMMITTEE – ROLE AND REMIT
Date: 10 DECEMBER 2008
Meeting: FALKIRK COUNCIL
Author: CHIEF EXECUTIVE

1 INTRODUCTION

- 1.1 The purpose of this report is to recommend a role and remit for an audit committee following the decision taken by Council on 25 June 2008 to introduce such a committee. This role has hitherto been performed by the Council's Best Value and Audit Forum.

2. AUDIT COMMITTEE PRINCIPLES

- 2.1 In 2004, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued guidance entitled "Audit Committee Principles in Local Authorities in Scotland". This guidance set out three fundamental audit committee principles, namely that there should be effective mechanisms in place to provide:

- independent assurance on the adequacy of the risk management framework and the associated control environment within the authority;
- 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
- assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.

- 2.2 It is suggested that the principles outlined above would form the core role of the audit committee.

- 2.3 The guidance also provides a template for local authorities to use when establishing an Audit Committee. A proposed remit, based on that guidance, would be as follows:

- to consider the Council's governance and business management arrangements;
- to consider the Council's risk management arrangements and action being taken to address risk related issues identified by auditors and inspectors, including consideration of periodic reports from the Corporate Risk Management Group;
- to consider the adequacy of the Council's control environment;
- to approve (but not direct) Internal Audit's strategy;

- to consider and agree Internal Audit plans, ensuring that work is planned with due regard to risk, materiality and coverage;
- to review summary Internal Audit reports and seek assurances that action has been taken to address issues identified;
- to consider an Annual Assurance report from the Internal Audit Manager;
- consider the reports of External Audit and other inspection agencies and seek assurances that recommendations made are addressed;
- to ensure there are effective relationships between Internal and External audit;
- to review the Authority's assurance statements, including the Statement on the System of Internal Financial Control or equivalent, to ensure they properly reflect the risk environment.

3. THE COMMITTEE

3.1 CIPFA's guidance suggests that an audit committee may function more effectively with a small membership to enable efficient discharge of its role and responsibilities although the guidance also acknowledges that these are decisions for Councils themselves to take. It is suggested that Council may wish to consider a committee of 6 members, politically balanced, with a quorum of four and reporting directly to Council.

3.2 Having regard to the decision taken by Council at its statutory meeting on 18 May 2008, a committee of six would have the following membership:

3	Labour
2	SNP
1	Conservative or Independent or non aligned Independent

3.3 The guidance advises that "to be fully effective, members of the audit committee need to have certain characteristics above and beyond those which are desirable in all members. In particular, they need to:

- have a good understanding of how the whole Council works and a broad understanding of the controls which exist or should exist;
- be able to distinguish between serious control weaknesses and those which are relatively minor;
- be confident about discussing audit findings with the auditors and management;
- have the power to make appropriate decisions and to make recommendations to the Council, in accordance with the standing orders; and
- be respected and trusted by other members of the Council to make remitted decisions on their behalf".

3.4 Meetings of the Committee would be attended by the Director of Finance (or his representative), the Internal Audit Manager and such other officers as the committee deemed to be required. The External Auditor may also be invited. In addition, other members of Council would be permitted to attend as the committee considered appropriate, following the existing practice of the Best Value and Audit

Forum. Other members would not, however, have a formal decision making role on the committee.

- 3.5 It is not envisaged that there would be a requirement for the Audit Committee to meet as frequently as the Best Value and Audit Forum. It is proposed, therefore, that the Committee would meet a minimum of 3 times each year, with the proviso that additional meetings would be called if there was business to be considered which could not wait until the next scheduled meeting. The scheduling of meetings should tie in with the annual Internal and External Audit planning and reporting cycle, with meetings in March, May and November.
- 3.6 With the exception of matters now within the remit of the audit committee, the business dealt with formerly by the Best Value and Audit Forum would continue to be dealt with by the re-named Best Value Forum.

4. RECOMMENDATIONS

4.1 It is recommended that Council agrees:-

- (a) the proposed role and remit of the Audit Committee as set out in paragraphs 2.1 to 2.3 of the report;
- (b) that the membership of the Committee should be set at 6 with a quorum of 4;
- (c) that the Committee should report directly to Council, and
- (d) to amend the Standing Orders of the Council to reflect these decisions.

4.2 Should Council agree in accordance with the foregoing, members are invited to appoint a convener of the Committee, and members thereof, in accordance with the proportionality outlined in paragraph 3.2 of the report.

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CHIEF EXECUTIVE

Date: 19 November 2008
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Background Papers

Nil.