

## OVERVIEW SCRUTINY AND AUDIT COMMITTEE

27<sup>TH</sup> SEPTEMBER 2011

### REPORT OF THE HEAD OF CENTRAL SERVICES AND CHAIR OF THE AUDIT TASK GROUP

#### FUTURE DELIVERY OF THE AUDIT COMMITTEE FUNCTION

##### 1.0 PURPOSE OF REPORT

- 1.1 At the last meeting of the Overview, Scrutiny and Audit Committee it was resolved that Officers be instructed to enquire further and make a report to the next meeting of this Committee upon the management and reporting of the Council's Audit function and that a Task Group be set up to consider this. This report sets out the key issues identified by the Task Group and the recommendations it is proposing.

##### 2.0 RECOMMENDATIONS

- 2.1 That Full Council establish a separate Audit Committee reporting directing to them, consisting of five members independent from the Policy Chairs, meeting three times per annum.
- 2.2 That the proposed terms of reference for the Audit Committee be as set out in para 3.3.
- 2.2 That the Committee determine the implementation date to be recommend to Full Council for the establishment of the Audit Committee.

##### 3.0 KEY ISSUES

- 3.1 The review of the Audit Committee function was prompted by a report to the last meeting of this committee by the Chairman which appraised Members of his previous experience of the overview and scrutiny function through his role as a County Councillor. The Chairman expressed concern that due to the breadth of this committees work it did not get too bogged down particularly in the audit aspect. As a result it was resolved to establish an Audit Task Group to look into the matter and report back.
- 3.2 The Audit Task Group met on one occasion on 13<sup>th</sup> July 2011 and was supported by the Internal and External Auditors and the Head of Central Services. The minutes of that meeting are attached at Appendix A for information.
- 3.3 The Task Group considered the options for the delivery of the Audit Committee function and the preferred option was a separate committee reporting directly to Full Council. The current terms of reference for the Overview, Scrutiny and Audit Committee as set out in the Council's Constitution were available for members of the Task Group (see Appendix B) and these cover the majority of the areas that an Audit Committee should consider as set out in the relevant guidance. The one omission being to consider the Council's financial statements. As such it is proposed that the new Audit Committee adopt the current responsibilities allocated

to the Overview, Scrutiny and Audit Committee in fulfilling its audit committee role and in addition the following responsibility be added:

“To Review the financial statements, external auditor’s opinion and reports to members and monitor management action in response to the issues.”

It was not intended that this would amend the current responsibilities allocated to the Policy Finance and Administration Committee in respect of the financial statements which are:

“To consider and approve the Council’s Statement of Accounts.”

- 3.4 Taking into account best practice guidance it was considered that for an authority the size of Melton three regular meetings per annum should be sufficient and these should be structured around the internal audit needs. The Committee would need to be supported by a training programme covering its responsibilities.
- 3.5 The matter of independence was discussed and external audit advice sought on the level of independence they would require with regard to member representatives on the committee. Whilst they recognise it would be good practice to have an audit committee that was fully independent from the executive and scrutiny functions they acknowledge that there is nothing prescriptive in the CIPFA guidance and therefore they recommend that there is at least independence from the Policy chairs. A particular point has been made by External Audit relating to the Chair of the Committee and that this would be best if at least this member was independent from the executive and scrutiny functions but recognising that this may cause the council issues and therefore may not be possible.
- 3.6 A number of councils have expanded the Audit Committee role into an Audit and Governance Committee and the recommendations of the Task Group would facilitate such a wider remit should The Council wish to pursue this option at any point. A wider committee may also enable more independent membership particularly if it were to have membership drawn from outside of the council.

#### 4.0 **POLICY AND CORPORATE IMPLICATIONS**

- 4.1 Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an audit committee, independent from the executive and scrutiny functions. An independent Audit Committee separate from the Overview and Scrutiny function would enhance the corporate governance arrangements of the council.

#### 5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

- 5.1 A separate Audit Committee would increase the level of support required from officers and members in servicing another full committee. As it is not proposed to increase the overall level of resources this will divert time away from other council activities.

#### 6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 There are no legal implications directly arising from this report.

## 7.0 **COMMUNITY SAFETY**

7.1 There are no specific community safety aspects to this report.

## 8.0 **EQUALITIES**

8.1 There are no equalities issues arising from this report

## 9.0 **RISKS**

9.1 There are no direct risks associated from this report. The Audit Committee would be the main committee responsible for the council's risk management arrangements.

## 10.0 **CLIMATE CHANGE**

10.1 There are no specific climate change implications relating to this report.

## 11.0 **CONSULTATION**

11.1 The council's internal and external auditors have been included in the determination of the proposals and have no concerns with the proposed arrangements any comment they have made are contained within the detail of the report.

## 12.0 **WARDS AFFECTED**

12.1 All wards are would be indirectly affected by the proposals.

---

Contact Officer:	Dawn Garton S151, Head of Central Services
Date:	14 <sup>th</sup> August 2011
Appendices:	Appendix 1– Minutes of the Task Group Meeting held 13.7.11 Appendix 2 – Terms of Reference for the Overview Scrutiny and Audit Committee
Background Papers:	CIPFA guidance on best practice for Audit Committees
Reference:	X: Committees/OSA/2011-12/27-09-11/Audit Task Group