

WILTSHIRE COUNCIL

AGENDA ITEM NO. 11

IMPLEMENTATION EXECUTIVE  
13 JANUARY 2009

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**ESTABLISHING AN AUDIT COMMITTEE FOR  
WILTSHIRE COUNCIL**

**Executive Summary**

In order to ensure local authorities have sound arrangements for corporate governance, audit committees are increasingly viewed as a critical component in the overall governance process. In recognising this growing importance, CIPFA has developed a set of principles and guidance for audit committees in local government, which have been widely adopted in recent years. The CIPFA guidance emphasises that audit committees should be in place in all principal local authorities.

**Proposal**

The Implementation Executive is asked to recommend the establishment of an Audit Committee for Wiltshire Council, in accordance with the membership and terms of reference shown in the Appendix, and the views of the Final Accounts and Audit Committee as outlined in paragraph 6, in order to satisfy the key elements of the CIPFA principles and guidance as outlined in paragraph 3. The Audit Committee should be independent from the executive and scrutiny functions, reporting directly to the full council.

**Reason for Proposal**

It is important for Wiltshire Council to have strong governance arrangements, and be able to demonstrate these to the people it serves. Establishing an effective audit committee will be a key component of these arrangements, and is seen as an essential element of good governance in the new council.

**IAN GIBBONS**  
Deputy Monitoring Officer

**SANDRA FARRINGTON**  
Chief Financial Officer

## **ESTABLISHING AN AUDIT COMMITTEE FOR WILTSHIRE COUNCIL**

### **Purpose of the Report**

1. To ask the Implementation Executive to recommend the establishment of an Audit Committee for Wiltshire Council, which operates in accordance with widely accepted and adopted principles, and therefore represents an essential element of good governance in the new council.

### **Background**

2. The Final Accounts and Audit Committee was established in 2005, by extending the terms of reference of the previous Final Accounts Committee to incorporate audit and governance issues. Since then it has served as an important means of involving members in the audit and governance process, and the creation of the new council presents the opportunity to further strengthen these arrangements.
3. In order to ensure local authorities have sound arrangements for corporate governance, audit committees are increasingly viewed as a critical component in the overall governance process. In recognising this growing importance, CIPFA has developed a set of principles and guidance for audit committees in local government, which have been widely adopted in recent years. The CIPFA guidance emphasises that audit committees should be in place in all principal local authorities. The key elements of the guidance are as follows:
  - Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within the authority, as well as providing a forum for the discussion of issues raised by internal and external audit.
  - Audit committees are therefore not just the concern of auditors, but they are about the governance, financial reporting and performance of the whole authority. As such, they enhance public trust and confidence in the financial governance of the authority.
  - The main purposes of an audit committee include giving independent assurance to members and the public, scrutinising financial management and reporting, and providing challenge across the council.
  - In order to provide effective challenge, the audit committee should be independent of the executive and scrutiny functions, and should also have a clear right of access to the full council, and other council groups and committees.
  - The functions overseen by the audit committee should include a number of control strategies such as risk management, the authority's annual governance statement, and anti-fraud and corruption arrangements, in addition to internal and external audit.
  - The audit committee's relationship with the Chief Financial Officer (CFO) is also an important factor. The audit committee should help the

CFO discharge their statutory responsibilities, whilst in turn, the CFO is a key source of expert advice and guidance for the committee.

- In order to maximise the effectiveness of the audit committee, it needs to have well informed members able to confirm to the council that the right processes are in place, to give confidence that the authority's overall governance arrangements and financial stewardship can be relied upon.
4. The contribution and value of an effective audit committee has also been recognised by the Audit Commission, which has given increasing prominence to this as a prerequisite for its Use of Resources assessments year upon year.

### **Main Consideration**

5. It is important for the new council to have strong governance arrangements, and be able to demonstrate these to the people it serves. Establishing an effective audit committee will be a key component of these arrangements, and this should therefore be incorporated into the new Constitution, together with appropriate terms of reference. Recommended membership and terms of reference are shown in the Appendix to this report.
6. The Final Accounts and Audit Committee supports the establishment of an Audit Committee for Wiltshire Council, consisting of thirteen Non-Executive Members. The Committee has also agreed that the Leader of the Council or the Cabinet Member responsible for Finance and Governance should be a non-voting Member of the new Audit Committee.
7. In establishing an audit committee which operates in line with the recommended approach, the new council will also strengthen its position with regard to its future Use of Resources assessment.

### **Environmental Impact of the Proposal**

8. No environmental impact arises from issues raised in this report.

### **Financial Implications**

9. There are no additional costs arising from this proposal.

### **Reasons for the Proposal**

10. To ask the Implementation Executive to recommend the establishment of an Audit Committee within the Constitution, as an essential element of good governance in the new council.

**Ian Gibbons**  
**Deputy Monitoring Officer**

**Sandra Farrington**  
**Chief Financial Officer**

Report author: Steve Memmott, Chief Auditor

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Unpublished documents relied upon in the preparation of this Report:

Audit Committees: Practical Guidance for Local Authorities (CIPFA)

### **Recommended Membership and Terms of Reference for the Audit Committee**

The Audit Committee should be comprised of between ten and fourteen members, to exclude members of the executive. It should meet four times per year, with terms of reference as follows:

#### **Internal Audit Activity**

- To approve the terms of reference and strategy for Internal Audit, and the annual internal audit plan
- To monitor and review the effectiveness of Internal Audit to ensure compliance with statutory requirements
- To consider the head of Internal Audit's annual report and opinion, and a summary on internal audit activity and the level of assurance it provides on the council's corporate governance arrangements
- To consider specific internal audit reports as requested, and monitor the implementation of agreed management actions

#### **External Audit Activity**

- To receive and comment on the external audit plan
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance
- To comment on the scope and depth of external audit work and to ensure it gives value for money
- To monitor the implementation of management actions arising from external audit work

#### **Regulatory Framework**

- To monitor and review the effective development and operation of corporate governance, risk management and internal control, and to receive progress reports as required
- To oversee the process for production of the Annual Governance Statement (AGS), to review the supporting evidence, and to approve the draft AGS
- To monitor the development and implementation of the council's anti-fraud and corruption policy and strategy

#### **Financial Management and Accounts**

- To ensure the council's arrangements for financial management are adequate and effective, and are regularly reviewed
- To review and approve the annual Statement of Accounts
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.