

Item No. 7.2	Classification: Open	Date: February 21 2007	Meeting Name: Council Assembly
Report title:		Establishment of Audit Committee	
Ward(s) or groups affected:		All	
From:		Finance Director	

RECOMMENDATIONS

1. That council assembly agree to establish an audit committee, as set out in paragraphs 8 to 20.
2. That council assembly consider and approve recommendations from the constitutional steering group as set out in appendix A to make necessary changes to the constitution.
3. That should recommendations 1 and 2 be agreed, council assembly appoint a chair and vice-chair for the remainder of the municipal year.

BACKGROUND INFORMATION

4. As part of its review of the constitution in May 2006, council considered member-level responsibility for audit issues within the council. It was advised that further guidance was awaited from CIPFA on the regulatory framework, accounts and audit activity and decided that, subject to this, the role of the executive member for resources should be made more explicit to include an audit remit. In line with this, the responsibilities of the executive member for resources were amended to include audit and risk management.
5. Guidance has now been received in the form of CIPFA's "A Toolkit for Local Authority Audit Committees" which provides more detailed advice, gives examples and draws on existing best practice from local government. This has been used to draw up a proposed terms of reference for an audit committee.
6. The council is currently judged by the Audit Commission to be at an "adequate" level (2 out of 4) of performance with regard to arrangements for internal control. The absence of an audit committee is a significant factor in preventing the council achieving a higher level of performance in the CPA use of resources judgment.
7. The draft Key Lines of Enquiry for 2007 for use of resources require the council to demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge and effective leadership on governance, financial reporting and audit issues.

KEY ISSUES FOR CONSIDERATION

Policy Implications

8. An audit committee is considered an integral part of good governance and the establishment of one will provide the council and others with greater independent assurance that the council is operating effectively.
9. The presence of an audit committee will have a positive impact on the council's ability to demonstrate that the council has arrangements in place to manage its significant business risks.
10. Although there is no statutory obligation to set up an audit committee, it is now estimated that about 90% of local authorities have a committee which fulfils the functions of an audit committee. The establishment of an audit committee is commonly recognised as a good practice and as stated previously it forms a key judgment in the council's annual use of resources assessment. This means that in order to further improve and build on its achievements to date, the council is required to demonstrate that it has an audit committee in place. This report therefore sets out proposals for the establishment of an audit committee.
11. The audit committee will provide an important check and balance with regard to the council's governance framework, stewardship of public funds and the effective delivery arrangements for maintaining a sound system of internal control. The audit committee will formalise much of what has been achieved to date. It will consider the council's annual audit letter and statement of accounts alongside review and approval of the statement on internal control.
12. In order to comply with best practice, the purpose, functions and composition of the proposed committee have been modelled on CIPFA's specimen terms of reference. Key points to be noted are as follows:
 - The committee should be independent of the executive and scrutiny functions and should report directly to the full council.
 - The committee may require other officers or agencies of the council to attend.
 - The frequency of meetings will need to be agreed by the committee, in order to ensure that they meet business and governance needs and the financial calendar.

CIPFA's model suggests a role in maintaining an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. These responsibilities are currently carried out by the standards committee, constitutional steering group, the monitoring officer and the finance director and it is not proposed to change this at the current time.

13. Full details are set out in appendix A, but the committee's purpose and composition are, in summary:

Purpose

- To provide independent assurance of the adequacy of the council's governance arrangements.
- To provide independent scrutiny of the council's financial and non-financial performance.
- To provide an oversight of the financial reporting process.

Composition

- The committee will comprise at least three, and up to five, councillors.
- No more than one member of the executive or of the overview and scrutiny committee may be a member of the committee.

14. Appropriate training for audit committee members will be provided as necessary.

Size and composition of the Audit Committee

15. The size and composition of the council's regulatory and other committees known as the "ordinary committees" is currently based on an allocation of 22 seats. The proportionality is based on the total of seats compared to the overall allocation of seats each political group has on the council.

16. In May 2006 council assembly agreed the total number of seats and allocated appointments, planning and disciplinary appeals committees to committees 1, 2 and 3. Officers are recommending a revised allocation to accommodate the establishment of an audit committee. The proposed change is based on the total number of **27** seats. This provides for an audit committee of 5 councillors and outlined in the table below is the most proportionate allocation of seats.

The new figures are shown in bold. The existing 2006/07 figures are shown in brackets.

	Committee	Total	Lib Dem	Lab	Con
1	Appointments	7	3	3	1
2	Planning	7	3	3	1
3	Disciplinary Appeals	8	4	4	0
4	Audit	5	2	2	1
	Total	27	12 (10)	12 (10)	3 (2)

Proportionality – the Legal Position

17. The Local Government and Housing Act 1989 covers the allocation of seats to political groups; it makes no provision for single independent members so they do not form part of the proportionality considerations.

18. Seats on committees and sub-committees must be allocated in accordance with the four principles of proportionality contained in sections 15, 16 and 17 of the Local Government and Housing Act 1989. There is a duty to give effect to the following principles, as far as is reasonably practicable:

1. That not all the seats on a committee or sub-committee are allocated to the same political group;
2. That the majority group must have the majority of seats on each committee or sub-committee;

Note: As no one group has an overall majority on the council, this principle

is not relevant.

3. Subject to (1) and (2) above, it must be ensured that the proportion of each political group's seats of the total number of seats on "ordinary committees" reflects as closely as possible their proportion of seats on full council; and
4. Subject to (1) to (3) above, the proportion of each political group's seats on each committee and sub-committee reflects as closely as possible their proportion of seats on full council.

Proportionality – Regulatory and Other Committees

19. The regulatory and other committees are the "ordinary committees" of the council in 2006/07 are currently as follows:

- Appointments committee
- Planning committee
- Disciplinary appeals committee

If recommendation 1 is agreed then the audit committee will be added to this list and paragraph 16 includes a revised allocation of seats based on a 5 seat audit committee. This provides for the most proportionate outcome in terms of the allocation of seats on the ordinary committees.

Resource implications

20. Members' allowances and costs of training will be met from within the existing budgets for democratic services.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Borough Solicitor

21. As specified at paragraph 10 of this report, there is no statutory obligation on local authorities to establish an audit committee. However, they are promoted by the Audit Commission as a feature of good governance practice.
22. If members consider that an audit committee would provide the assurance that the council is operating effectively, the committee could be set up under the provisions section 101 Local Government Act 1972 which gives the council a power to establish committees for the purpose of discharging any of its functions.
23. The setting up of an audit committee would require an amendment to the constitution which requires the approval of the constitutional steering panel.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Southwark's Constitution	Constitutional Team Southwark Town Hall Peckham Road, SE5 8UB	Ian Millichap 020 7525 7225

APPENDICES

No.	Title
Appendix A	Audit Committee – Additions to Part 2 (Articles) of the Council's Constitution

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Jo Anson, Head of Financial Governance	
Version	Final	
Dated	7 February 2007	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor	Yes	Yes
Executive Member	Yes	Yes/No
Date final report sent to Constitutional/Community Council/Scrutiny Team	09/02/07	

APPENDIX A

AUDIT COMMITTEE – ADDITION TO PART 2 (ARTICLES) OF THE COUNCIL'S CONSTITUTION

1. For inclusion in Part 2 (Articles) of the constitution

Article xx – Audit Committee

x.01 Audit Committee

The council will establish an audit committee.

x.02 Composition

- (a) The committee will consist of:
- At least three councillors, and up to five councillors, including at least one member of each political group as defined by the Local Government and Housing Act 1989 Regulation 8 Local Government (Committees and Political Groups) Regulations 1990.
- (b) No more than one member of the executive may be a member of the committee, and no executive member may chair the committee.
- (c) No more than one member of scrutiny may be a member of the committee, and no scrutiny member may chair the committee.
- (d) The leader of the council may not be a member of the committee.
- (e) The chair will be elected from among the councillors who are members of the committee.
- (f) The quorum for the meeting is two members.

x.03 Statement of purpose

The purpose of the audit committee is to provide:

- Independent assurance of the adequacy of the council's governance arrangements, including the risk management framework and the associated control environment;
- 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;
- Oversight of the financial reporting process.

x.04 Role and function

The audit committee will have the following roles and functions:

Audit activity

1. To consider the internal audit annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2. To consider reports dealing with the management and performance of the provider of internal audit services.
3. To consider reports from internal audit on agreed recommendations not implemented within a reasonable timescale.
4. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
5. To consider specific reports as agreed with the external auditor.
6. To comment on the scope and depth of external audit work and to ensure it gives value for money.
7. To liaise with the audit commission over the appointment of the council's external auditor.
8. To commission work from internal and external audit.

Regulatory framework

9. To review any issue referred to it by the chief executive or a strategic director, or any council body.
10. To monitor the effective development and operation of risk management in the council.
11. To monitor the effective development and operation of corporate governance in the council and to agree actions necessary to ensure compliance with best practice.
12. To monitor council policies on 'Whistleblowing', the 'Corporate anti fraud strategy' and the council's complaints processes.
13. To oversee the production of and agree the council's statement on internal control.
14. To review the council's compliance with its own and other published standards and controls.

Accounts

15. To review the annual statement of accounts and specifically to consider compliance with appropriate accounting policies and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
16. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

x.05 Annual report

The audit committee will report annually to council assembly on its work and performance during the year.

x.06 Audit committee procedure rules

The council's general procedures as set out in Part 4 of the constitution (Rules – committees and community councils procedure rules) apply to the audit committee.

x.07 Attendance of officers

The committee may require other officers or agencies of the council to attend as required.