

Chapter 3

CORE FUNCTIONS

Extract from the Position Statement:

2. Core Functions

Audit committees will:

- *Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.*
- *Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.*
- *Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.*
- *Approve (but not direct) internal audit's strategy, plan and monitor performance.*
- *Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.*
- *Receive the annual report of the head of internal audit.*
- *Consider the reports of external audit and inspection agencies.*
- *Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.*
- *Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.*

An audit committee should be able to improve corporate focus on the issues arising from risk management, internal control and reporting. It may be difficult for officers and members to identify what needs to be done to improve, or to act on significant issues arising from audit work or the review of the Statement on Internal Control, unless there is a forum for reviewing such issues and tracking action on what needs to be done.

INTERNAL AUDIT

The audit committee will have a clear role in relation to the authority's internal audit function. This should involve:

- formally approving (but not directing) the overall strategy to ensure that it meets the council's overall strategic direction
- approving the annual programme of audits (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.⁵

The audit committee's role in relation to reviewing the work carried out will include formal consideration of summaries of work done, key findings, issues of concern and action in hand as a result of audit work. The committee will wish to judge the effectiveness of internal audit by receiving feedback on the work carried out.

A key part of the role is receiving and reviewing the annual report from the head of internal audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. It is important to emphasise that the head of internal audit provides independent assurance to the audit committee, and by doing so, helps support the chief finance officer's legal responsibilities.

The head of internal audit should be able to meet privately with the committee.

EXTERNAL AUDIT AND INSPECTIONS

The audit committee's role will include receiving and considering the work of the external auditor.

⁵ *Including a view on whether internal audit meets the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.*

The programme of audits will follow a nationally agreed path to some extent but, where local flavour from the auditor's risk assessment can be added, the committee should be given the chance to comment on the inclusion of any audit work and should receive reports following the completion of such work in order to monitor action to be taken.

The audit committee should contribute to the council's response to the Audit Commission's annual audit and inspection letter, reports and opinion. It should also consider and express an opinion on the selection and rotation of the external auditor.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and to compare with any relevant internal audit and external audit reports. Inspection reports will need to be actioned either by the council's corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry to the authority.

The committee should also ensure that it is aware of the work of scrutiny and other committees so that it can take account of issues relevant to its areas of interest.

The audit committee's role extends also to ensuring that there is effective working between all audit and inspection functions to maximise the value of the review function to the authority.

CONTROL STRATEGIES

The council will have a number of strategies in place to regulate its activities and control the actions of its employees, elected members and contractors. The audit committee should take a view on whether these

strategies have been properly formulated, and remain effective. Regular reports to the committee on action taken and annual statements of the continued appropriateness of the strategies will be necessary if the audit committee is to perform this role.

The strategies to be overseen by the audit committee will include:

- risk management
- the assurance framework, including the production of the Statement on Internal Control (SIC)
- local codes of corporate governance, standards and behaviour
- arrangements for delivering value for money
- anti-fraud arrangements
- anti-corruption arrangements including the authority's whistle-blowing guidelines.

By reviewing these strategies, the audit committee will be in a position to monitor the action recommended by auditors and inspectors and agreed and implemented by officers to improve the situation. It will also be able to monitor changes to the risk environment and guide any associated actions.

"Audit committees provide independent assurance to the authority on the adequacy of the internal control environment, risk management framework and financial reporting systems."

Director of Audit Policy and Appointments, the Audit Commission

FINANCIAL STATEMENTS

The audit committee should review the financial statements, for example, before they are approved under regulation 10 of the Accounts and Audit Regulations 2003, and again, in conjunction with the external auditor's SAS 610 (ISA 260) report to those charged with governance, following completion of the audit. The committee's review of the financial statements should focus on:

- the suitability of accounting policies and treatments

- any changes in accounting policies and treatments
- major judgemental areas, eg provisions
- significant adjustments and material weaknesses in internal control reported by the external auditor.