

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

24TH SEPTEMBER, 2007

1. PROPOSAL TO ESTABLISH AN AUDIT COMMITTEE

Report of the Clerk and Treasurer.

RECOMMENDED

- 1) That an Audit Committee comprising 5 members be established, to meet quarterly, with the terms of reference as set out in Appendix 1;
- 2) That the terms of reference of the Executive Committee be amended to read as set out in Appendix 2;
- 3) That the following Statement of Purpose for the Audit Committee be approved:-

“The purpose of the Audit Committee is to provide independent assurance of the adequacy of 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, and to oversee the financial reporting process”;

- 4) That the membership and political composition of the Audit Committee be determined for the remainder of the current Municipal Year;
- 5) That the Authority considers whether, with effect from the Annual Meeting of the Authority in 2007/2008, the membership of the Audit Committee shall include one or more independent members, and if so, to determine the term of office and voting rights and authorise the selection process to proceed along the lines set out in the report, with a view to making an appointment effective from the Annual Meeting in 2008;
- 6) That a Special Responsibility Allowance of £1,920 [plus appropriate annual uplifts] be allocated to the Chair of the Audit Committee pro-rata with effect from 24th September, 2007 and that the Members’ Allowances Scheme be amended accordingly.

- 7) That arrangements be made for appropriate training to be provided for members of the Audit Committee.

2. PURPOSE OF THE REPORT

The Authority is invited to consider establishing an Audit Committee as part of its political structure, and to make consequent amendments to the terms of reference of the Executive Committee, which currently has responsibility for the audit function.

3. BACKGROUND

- 3.1 Under the current Audit Commission Comprehensive Performance Assessment (CPA) Use of Resources model, in order to achieve a level four rating for the internal control key line of enquiry, local authorities need to have “an audit committee which is constituted as a full committee of the Council and is independent of both the Executive and Scrutiny functions”. Discussions have taken place with the Authority’s external auditors, KPMG, and whilst the appointment of an Audit Committee is optional for Fire Authorities, it is recommended as best practice.
- 3.2 Audit committees are an essential element of good governance and 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 act on significant issues arising from audit work or the review of the Statement on Internal Control, unless there is a specific forum for reviewing such issues and tracking action on what needs to be done.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a document entitled ‘Audit Committees – Practical Guidance for Local Authorities’ which has been used as a reference for this report. Some key issues identified in the guidance are set out in Appendix 3.
- 3.4 If the Authority was to decide to establish an audit committee, the CIPFA guidance recommends that it should formally approve a Statement of Purpose, along the following lines:

“The purpose of an audit committee is to provide independent assurance of the adequacy of 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, and to oversee the financial reporting process.”

3.5 With regard to membership, CIPFA recommends that the committee should:-

- have limited cross membership with the scrutiny function (not applicable to the Fire Authority);
- not have a chair who is a member of the executive (not applicable to the Fire Authority, but members may wish to exclude members of the Executive Committee from the Audit Committee)
- consist of between three and five members (as per HM Treasury guidance).

It also recommends that consideration should be given to the composition of the membership reflecting the political balance of the authority, and that members should be properly trained to fulfil their role. For a committee of 5 members, the composition in accordance with current proportionality requirements would be 3 Conservative members; 1 Labour member and 1 Liberal Democrat member.

3.6 If the Authority wishes to establish an audit committee in the current municipal year, it is suggested that its membership be drawn from members of the Authority. However, in order to reinforce the independence of the Committee, the Authority may wish to consider amending the membership to include one [or more] non-elected independent members, as for the Standards Committee, to take effect from the Annual Meeting in June 2008. If the Authority does wish to appoint an independent member the selection process would need to commence around March, 2008, and it is suggested that the Audit Committee shortlist and interview candidates and make a recommendation to the Authority on a suitable appointment. It is suggested that for continuity an independent member should serve for three years, and that such a member should not have voting rights.

3.7 Proposed terms of reference for an audit committee are set out as Appendix 1 to this report. These are based on CIPFA recommendations, but take into account local circumstances. Consequent amendments to the terms of reference of the Executive Committee would be necessary to delete references therein to the audit function as set out in Appendix 2 to this report. Furthermore, under the proposed new arrangements, Policy Planning Forum would no longer receive presentations on audit work.

3.8 CIPFA recommends that audit committees should meet regularly, perhaps four times per year. In line with the principles of openness and transparency, meetings of the audit committee would normally be held in public unless the nature of its enquiries is such that it is likely that information disclosed will fall within the exemptions provided for under Schedule 12A of the Local Government Act 1972, as amended by the

Local Government (Access to Information) (Variation) Order 2006, when that part of the committee's meeting would be held in private.

- 3.9 The committee would be regularly attended by Treasurer, the Head of Finance and Procurement, Sandwell MBC's Audit Services Manager and where appropriate, the appointed external auditor. It would have the right to call any officers or agencies of the Authority to attend as required. CIPFA recommends that the committee should also meet privately and separately with the external auditor and the Audit Services Manager.
- 3.10 It is considered that the level of responsibility of the Chair of an Audit Committee will be comparable to that of the Principal Member of the Joint Consultative Committee and it is therefore proposed that the same level of Special Responsibility Allowance (SRA) be allocated to the position. At present that allowance is £1,920 for a full year plus appropriate annual uplifts. The payment for 2007/2008 will be pro-rata to take account of the establishment of the Committee for part of the year.

4. EQUALITY IMPACT ASSESSMENT

- 4.1 In preparing this report an initial Equality Impact Assessment has been carried out, which did not raise issues which required a full Equality Impact Assessment to be completed.

5. LEGAL IMPLICATIONS

- 5.1 At present there are no legal or statutory requirements on local authorities to establish an audit committee. However, it is increasingly being regarded as good practice in the public sector, and it is in line with the principles of openness and transparency in business embodied in the Local Government Act 2000, which defines the present structure and conduct of local government. As indicated elsewhere in this report, the proposal is endorsed by CIPFA, recommended by the Authority's external auditors, and is necessary in order to fulfil the demands of the current Comprehensive Performance Assessment process.

6. FINANCIAL IMPLICATIONS

- 6.1 All costs arising from the establishment of an Audit Committee, including the requirement to give public notice of the amendment of the members' allowances scheme, can be met from existing resources.

BACKGROUND PAPERS

‘Audit Committees – Practical Guidance for Local Authorities’ - Chartered Institute of Public Finance and Accountancy (CIPFA) publication – November 2005

SUE PHELPS
CLERK

LYNDA BATEMAN
TREASURER

Audit Committee – Terms of Reference

1. To undertake the following matters which are delegated to it:-

Audit Activity

- (1) approve the internal audit strategy;
- (2) consider the Audit Services annual report and opinion, and a summary of internal audit activity and the level of assurance it gives over the Authority's governance, risk management and internal control arrangements;
- (3) consider any summaries of internal audit activity and specific internal audit reports requested by the Committee;
- (4) consider reports dealing with the management and performance of Audit Services where necessary;
- (5) consider a report from Audit Services on the timeliness of management responses to internal audit reports and on agreed recommendations not implemented within a reasonable timescale;
- (6) consider specific reports as agreed with the external auditor and the report to those charged with governance where necessary;
- (7) comment on the scope and depth of external audit work and to ensure it gives value for money;
- (8) liaise with the Audit Commission over the appointment of the Authority's external auditor;

Regulatory Framework

- (9) maintain an overview of contract procedure rules and financial regulations;
- (10) review any issue referred to it by the Chief Fire Officer, Clerk or Treasurer, or any Authority body;

- (11) monitor the effective development and operation of risk management and corporate governance in the Authority;
- (12) monitor Authority policies on 'Raising Concerns at Work', the anti-fraud and anti-corruption strategy and the Authority's complaints process;
- (13) oversee the production of the Authority's Governance Statement¹ and to recommend its adoption;
- (14) consider the Authority's arrangements for corporate governance and recommending necessary actions to ensure compliance with best practice;
- (15) consider the Authority's compliance with its own and other published standards and controls;

Accounts

- (16) review the annual statement of accounts, and specifically, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority;
 - (17) consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 2. To deal with any other matters referred to it by the Authority.
 - 3. To submit its minutes to the Authority.

¹ Formerly the Statement on Internal Control

Executive Committee – Terms of reference

To deal with all matters of an urgent nature which cannot reasonably be delayed until the next ordinary meeting of the Authority or appropriate committee.

To consider and monitor the Authority's budget as necessary and to make appropriate recommendations.

To award contracts in circumstances where it is recommended to accept other than the lowest tender received.

To open and accept tenders for contracts where the estimated value exceeds £100,000.

To deal with matters that can be dealt with locally as part of the modernisation agenda.

To consider recommendations arising from meetings of the West Midlands Regional Management Board.

To deal with matters relating to the Members Allowances Scheme.

To consider and make recommendations to the Authority on the conditions of service and salary of the posts of Chief Fire Officer, Deputy Chief Fire Officer and Assistant Chief Officers.

To approve arrangements for partnership working, funding and/or goods, works or services provided freely from external sources, including external funding agreements, above £20,000 in value.

~~To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.~~

~~To 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.~~

~~To review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.~~

~~To monitor management action in response to the issues raised by external audit.~~

To deal with any other matters referred to it by the Authority.

To submit its minutes to the Authority.

CIPFA GUIDANCE ON AUDIT COMMITTEES – KEY ISSUES

The benefits of setting up an Audit Committee

There are many benefits to be gained from operating an effective audit committee. It:

- raises greater awareness of the need for internal control and the implementation of audit recommendations
- increases public confidence in objectivity and fairness of financial and other reporting
- reinforces the importance and independence of internal and external audit and other similar review process (for example, providing a view on the Statement on Internal Control)
- provides additional assurance through a process of independent and objective review

Core Functions

The audit committee should:

- 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) the internal audit 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.

Control Strategies

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

- risk management;
- the assurance framework, including the production of the Statement on Internal Control (SIC);
- anti-fraud arrangements;
- anti-corruption arrangements;
- local codes of corporate governance;
- arrangements for delivering value for money.

Financial Statements

The audit committee should review the financial statements before they are approved under regulation 10 of the Accounts and Audit Regulations 2003, and again, in conjunction with the external auditor's report. The committee's review should focus on:

- the suitability of accounting policies and treatments;
- any changes in accounting policies and treatments;
- major judgemental areas;
- significant adjustments and material weaknesses in internal control reported by the external auditor.

With effect from 2006, the 2003 Regulations provide for the approval of the Council's annual Statement of Accounts by 30th June in each year. The introduction of examination of the Statement by an audit committee prior to its submission to the Authority will further support the proper financial management of the Council's affairs.