

**ANGUS COUNCIL**

**RESOURCES AND CENTRAL SERVICES COMMITTEE – 21 October 2004  
AUDIT SUB-COMMITTEE – 26 October 2004**

**ROLE AND REMIT OF AUDIT SUB-COMMITTEE**

**REPORT BY DIRECTOR OF FINANCE**

**ABSTRACT**

This report considers the role and remit of the Audit Sub-Committee in the context of both matters raised by External Audit in their recent report and the CIPFA Directors of Finance guidance and makes minor recommendation in relation to the remit and timing of meetings.

**1. RECOMMENDATIONS**

It is recommended that the Resources and Central Services Committee:-

- a) note the intention that the Monitoring Group continue its current scrutiny role in relation to performance management issues;
- b) agree the continuation of the Audit Sub-Committee to deal with financial and governance matters of an internal and external audit nature and also to consider the linkages with embedded risk management;
- c) agree the remit of the Audit Sub-Committee be formalised to “consider the outcome of the embedded risk management process and the effect on the overall internal control environment”;
- d) note the Audit Sub-Committee will increase the standard meetings to three per annum, subject to the normal existing arrangements of additional meetings being called on an as-needs basis; and
- e) agree that a suitable training course be identified for members of the Audit Sub Committee.

**2. INTRODUCTION**

External Audit have recently issued their follow up report on the Internal Audit section of the Council and, within that report, have raised some matters with regard to the Audit Sub-Committee. This report will be considered within agenda item 4. In addition, the CIPFA Directors of Finance section have recently issued guidance on Audit Committee principles. This report seeks to consider the situation in Angus compared to “good practice” and the matters raised by External Audit, and to make any relevant recommendations for change.

**3. MATTERS RAISED BY AUDIT SCOTLAND**

As part of their review Audit Scotland have asked that the Council consider the position of the Audit Sub-Committee, frequency of meetings and the relationship with the Monitoring Group to ensure that full consideration is given both to the assurance and performance elements of services.

The Chief Executive and the Director of Finance have given careful consideration to the matters raised by External Audit and feel that the current arrangements are working well and generally accord with the descriptive rather than the prescriptive nature of the Audit Committee principles and should therefore be retained rather than for example be replaced by a combined Audit Scrutiny Committee. It is felt however that some minor amendments with regard to the Audit Sub Committee can be made and these are discussed below.

In relation to the frequency of meetings, it is recognised that there is scope to increase the number of formal meetings and to re-profile the timing of these meetings to fit the main milestone dates within the audit and accounting year as follows:-

<b>Committee Date</b>	<b>Milestone Business</b>	<b>Ordinary Business</b>
March	Agreement of risk-assessed audit needs Agreement of forward internal audit plan	Internal Audit Plan Update Reports Internal Audit Report Summaries External Audit Reports
June	Chief Internal Auditors annual report and assurance statements	As above
November/December	External Audit Management Letter	As above

In addition to the above, current arrangements which allow the calling of additional meetings to discuss arising/additional matters will be maintained.

#### **4. CIPFA DIRECTORS OF FINANCE AUDIT COMMITTEE PRINCIPLES GUIDANCE**

Recently the Directors of Finance group issued a guidance document entitled "Audit Committee Principles in Local Authorities in Scotland". Included within this document was an Audit Committee Principles Matrix, which laid down the elements of good practice that Authorities should adopt in relation to Audit Committee Principles. This matrix is replicated at Appendix I and the Angus position compared to the good practice elements.

It is important to note that the document is described as descriptive rather than prescriptive and recognised that each local authority will wish to reflect its own style of operation. Nevertheless it is felt that the comparison of the Angus position with good practice elements is useful.

Generally the Council comply with the majority of the principles of good practice. Areas of difference in relation to administration include the matters relating to the sub-committee not being a standing committee (already discussed in section 3 above), the political balance of membership and the training of members. It is suggested that in relation to training a suitable training course be identified for members

In relation to the general principles within the matrix, the Council is fully compliant in relation to the internal controls and the annual accounts. However, the Audit Sub-Committee is not compliant in relation to the principle of risk related performance as the Monitoring Group currently carries out this role. This approach reflects the Council's style of operation and is in accord with the spirit of the guidance.

In this regard, there is scope for the Audit Sub-Committee's role to be extended to consider the outcomes of the Council's embedded risk management process. This would allow for a more cohesive approach to the management of overall risks and ensure that risks raised within both the audit and risk management process were addressed and any implications on the overall internal control environment considered. This would also facilitate a transparent linkage between the Audit Sub-Committee and the Monitoring Group.

#### **5. FINANCIAL IMPLICATIONS**

There are no financial implications arising from this report.

#### **6. HUMAN RIGHTS IMPLICATIONS**

There are no human rights implications arising from this report.

## **7. CONSULTATION**

The Chief Executive and Director of Law and Administration have been consulted in the preparation of this report.

David S Sawers  
Director of Finance

NOTE: No background papers, as defined by Sections 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.

DSS/JW/PH 30/9/04

## Appendix I

### Comparison against “Good Practice”

Administration	Good Practice	Angus Adherence	Commentary
<p><i>An audit committee that demonstrates by the way that it is structured and organised that it is effective</i></p>	<p>A formally constituted committee, reporting directly to Council and generally meeting in public</p>	Largely	<p>A sub-Committee of the Resources and Central Services Committee but minutes of the Audit Committee go to that standing committee</p> <p>Current political balance would suggest a 60%/40% split</p> <p>A suitable formal training course is to be identified for members</p>
	<p>Adherence to clear terms of reference</p>	Yes	
	<p>Membership which generally includes at least as many members drawn from outwith the administration as the political balance would suggest</p>	No	
	<p>Effective training and development for all involved in the process</p>	No formal training	
	<p>Agenda papers submitted in good time to enable all members and officers to review them properly</p>	Yes	
	<p>Regular attendance by appropriate senior officers of the Council, the HIA and the External Auditor</p>	Yes	
Principle	Good Practice	Angus Adherence	Commentary
<p><b>Principle 1 – The Control Environment</b></p> <p><i>Independent assurance of the adequacy of the risk management framework and the associated control environment within the authority</i></p>	<p>Consideration of Internal Audit periodic plan and strategy</p>	Yes	
	<p>Monitoring of achievement of internal audit plan</p>	Yes	
	<p>Review of (summary/selection of) audit reports, main issues arising and implementation of recommendations</p>	Yes	
	<p>Ensuring that risk assessment has been carried out by the HIA</p>	Yes	
	<p>Review of annual report and assurance statements to committee from HIA</p>	Yes	
<p>Existence of strong/effective relationship between external audit, inspection agencies and internal audit</p>	Yes		

	Ensuring the value of the audit process is actively promoted	Yes	
<b>Principle 2 – Risk related Performance</b>  <i>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</i>	Consideration of the effectiveness of the authority's corporate risk assessment process	See commentary	Currently carried out by the Monitoring group – although the CIA overall assessment will be included in the annual report submitted to the Audit Sub-Committee
	Consideration of significant risk related performance issues raised by auditors or other inspectors	See commentary	This approach reflects the Council's style of operation and is in accord with the spirit of the guidance.
	Monitoring of implementation of improvement action plans	See commentary	
<b>Principle 3 – Annual Accounts and the External Auditor</b>  <i>Standard assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with</i>	Review of the audit certificate and consideration of matters arising from audit	Yes	Annual management letter (including commentary on certificate) from External Audit is considered by the sub-committee
	Consideration of annual report to members from External Audit and monitoring of implementation of agreed action plans	Yes	
	Consideration of External Audit reports, main issues arising and implementation of recommendations	Yes	