

**OVERVIEW AND SCRUTINY COMMISSION  
20 JULY 2006**

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**AUDIT COMMITTEES – CURRENT DEVELOPMENTS  
(Borough Treasurer)**

**1 BACKGROUND**

- 1.1 Local authorities are not obliged to have a separate Audit Committee. Such Committees are, however, increasingly seen as good practice and are also gaining prominence through the requirements of the Comprehensive Performance Assessment (CPA) to have an independent forum to receive reports on the progress of Internal Audit and External Audit.
- 1.2 The Chartered Institute of Public Finance and Accountancy, in its publication “Audit Committees – Practical Guidance for Local Authorities” (2005), comes down in favour of an independent Audit Committee, though it acknowledges that other approaches are valid.
- 1.3 This paper reviews the Council’s existing arrangements, considers the advantages and disadvantages of Audit Committees and identifies an alternative approach.

**2 SUGGESTED ACTION**

- 2.1 That the Overview and Scrutiny Commission notes developments around Audit Committees within local government and considers whether any change to Bracknell Forest’s existing arrangements would be desirable.**

**3 SUPPORTING INFORMATION**

Current Arrangements

- 3.1. The importance of a Member forum to consider audit related issues is recognised. This role is carried out by the Overview & Scrutiny Commission (although not specifically recognised in its terms of reference) the main advantages of which are considered to be:
- Members of the Commission are familiar with the scrutiny function and can apply these skills to audit and governance issues
  - The Commission is an established Member group, with set dates and support from Democratic Services and other officers
  - Audit and governance issues are discussed in a public arena
- 3.2 The disadvantages are:
- Audit and governance issues are only part of the remit and could potentially get little attention.
  - After 2006 it is likely that the Council will need a member group with “audit and governance issues as the principal responsibility in its terms of reference” to sustain the current score of 3 (out of 4) in the CPA Use of Resources judgement.

### Audit Committees

- 3.3 The publication “Audit Committees – Practical Guidance for Local Authorities” notes that less than half of local authorities have Audit Committees but, elsewhere in the public sector, Audit Committees are required (for example all NHS Boards have been required to have an Audit Committee since 1994). They are also increasingly common in the private sector.
- 3.4 The underlying aim is to improve an organisation’s governance arrangements and CIPFA contends that an independent Audit Committee achieves this and provides greater transparency than any other arrangement. CIPFA also argues that any Audit Committee should be independent from the scrutiny function. The role of scrutiny is to review and challenge both policy decisions and individual decisions made. The role of the Audit Committee is to provide independent assurance that controls are in place and operating effectively.
- 3.5 CIPFA asserts that the Audit Committee could, and probably should, examine the scrutiny function to ensure that it is operating effectively. It cannot carry out this function effectively (and, more importantly, be seen to do it independently and effectively) if it is itself part of the scrutiny function. CIPFA feels that the Audit Committee should report to Full Council. This reinforces its independence from both the executive and scrutiny functions.
- 3.6 CIPFA’s reasons for recommending the independent Audit Committee approach also include: -
- A separate Audit Committee highlights the independence of the audit function
  - It can provide additional assurance to the Borough Treasurer that systems of internal control are effective
  - It gives Internal and External Audit more authority and makes implementation of audit recommendations more likely
  - It should be well placed to ensure co-ordination of the audit and inspection functions, eliminating any unnecessary duplication
- 3.7 The main disadvantages of a separate Audit Committee are the practical ones created by extra and regular meetings which would need to take account of existing Member commitments and the need for officer support.

### Alternative Approaches

- 3.8 A refinement of the Audit Committee approach would be an Audit Working Group (which could operate as a Panel reporting to Overview and Scrutiny). This could be small and specialist. Such a Group could be set up as a Member/Officer working group and need not be a public meeting. This has advantages, in that it would not be appropriate to discuss current frauds or irregularities in public.
- 3.9 In this private forum, Members could question Officers more closely, for example, about failures to implement audit recommendations. Equally, they can challenge auditors about the practicality and reasonableness of their recommendations.
- 3.10 An Audit Working Group can also demonstrate its independence further by having an independent Chairman (e.g. an academic or businessperson with relevant knowledge and experience) whilst any Committee of the Council must be chaired by an elected Councillor. An Audit Working Group would, of course, have to report to an official

Committee of the Council (e.g. Council, the Executive or the Overview and Scrutiny Commission).

- 3.11 A disadvantage of the Working Group approach is that its small size may preclude Members, particularly from smaller opposition Groups, from attending. This can cause concern that key governance work is being done in private and important decisions could be made privately. One answer to this is to allow a single representative of any smaller political group, which is not represented formally on the Group, to attend the meetings as an observer.
- 3.12 Another disadvantage of the Working Group approach is that Democratic Services are less likely to be able to find the capacity to service an 'unofficial' Group and it is yet another meeting for Officers to support and for Members to fit in to their diaries.

### Summary

- 3.13 There are perceived disadvantages to combining the scrutiny and Audit Committee roles and a separate Audit Committee is now considered to be best practice. The Council's current arrangements, however, have been working reasonably effectively and setting up a separate Audit Committee could strain the capacity of both Members and Officers.
- 3.14 If the status quo is the preferred option, it is suggested that the Overview and Scrutiny Commission's Terms of Reference be amended to include specific references to audit and governance issues.

### Background Papers

Audit Committees – Practical Guidance for Local Authorities (CIPFA 2005)  
Key Lines of Enquiry for Use of Resources (Audit Commission April 2006)

### Contact for further information

Alan Nash 01344 352180  
[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

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