

THE EXECUTIVE

27 MAY 2003

REPORT OF THE DIRECTOR OF FINANCE

AUDIT REPORTING ARRANGEMENTS	FOR DECISION	
<i>This report sets out a recommendation from the Corporate Monitoring Group for decision by the Executive</i>		
<u>Summary</u>		
Following on from the Authority's Comprehensive Performance Assessment, the External Auditor's Management Letter for 2001/02 recommended that arrangements be put in place to perform the role of an audit committee.		
The Corporate Monitoring Group was identified as the most appropriate committee to undertake this role.		
<u>Recommendations</u>		
<ol style="list-style-type: none">1. The role currently undertaken by the Director of Finance in respect of planned internal audit work should be overseen by the Corporate Monitoring Group.2. In the light of the Smith report, the Corporate Monitoring Group should also be responsible for overseeing the Council's relations with the External Auditors. Suggested additions to the Group's terms of reference are included in the appendix.3. That the Executive agrees the extended terms of reference and the appointment of Councillor Mrs P A Twomey, Chair of the Scrutiny Management Board, to the Corporate Monitoring Group.		
<u>Reason</u>		
To help the Corporate Monitoring Group to undertake the role of an audit committee.		
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1. Current Arrangements

Internal Audit currently reports to the Director of Finance, who has the legal duty to maintain an effective Internal Audit function. The Director of Finance maintains an overview of the work of the section and their performance in delivering audit plans.

The Standards Committee also receives an annual report from the section summarising audit's involvement in fraud and disciplinary work (i.e. the unplanned activity). They also receive Internal Audit's input into the Council's policies and frameworks for Corporate Governance.

There are no formal arrangements in place to involve Members in monitoring the arrangements for external audit.

2. Developments in External Audit work

In the light of the Enron and Worldcom scandals, the Financial Reporting Council, which regulates audit work in the private sector, commissioned a report from Sir Robert Smith on the implications of these cases for the work of audit committees.

A draft report was published in January 2003, which identified a need to regulate the value and nature of non-audit work undertaken by external auditors. This arose because of the significant value of consultancy work purchased by both Enron and Worldcom from their respective external auditors.

3. Link with the Political Structure

The Corporate Monitoring Group is an important meeting but has no delegated powers. As the name suggests, its main role is to monitor. It is not a formal committee and, as such, is not open to the public or press. There is currently a link to the Executive in that (a) the Deputy Leader, whose portfolio includes performance management and internal audit amongst other responsibilities, chairs the Group (indeed he is the only Member), and (b) the Group is required to report to the Executive either before, or at the conclusion of, external inspections on the lessons learnt for the whole Council.

The role as an audit committee will widen the Group's responsibilities. Provided it is simply 'monitoring' the audit function (internal and external) there is no apparent reason why the Group cannot continue to function in the same way. This does, however, mean, quite strictly, that the Group cannot make any decisions. Any decisions necessary would need to be referred to the Executive.

However, due to the importance of the Group, it may be sensible to increase the membership from one Member to two. This could either be (a) by the Chair giving an opportunity to his backbench colleagues who help with his portfolio, or (b) an excellent way of the Executive jointly working with Scrutiny in a fairly informal way by including one Member from the Scrutiny Management Board.

Additions to Terms of Reference of Corporate Monitoring Group

1. Review annual work plans for both internal audit and external audit and receive updates on significant issues arising from this work.
2. Receive annual reports from the Head of Audit and the external auditors on the extent to which audit plans have been delivered and audit recommendations adopted.
3. Ensure the internal audit function has the necessary resources and access to information to fulfil its role in accordance with appropriate legal and professional requirements.
4. Be responsible for overseeing the Council's relations with the external auditor.
5. Recommend policies to the Executive in respect of the type and value of non-audit work for which external auditors are engaged.