

Introduction

- 5.001 Our 1998 report included two articles on how local authorities can appropriately manage relationships between our auditor on the one hand and the council and its members and the chief executive on the other.¹ As noted in that report, an audit committee – which is answerable to the council – is one of the principal means by which the relationships between our auditor and the authority can be best managed.
- 5.002 As a result of our article on the benefits of an audit committee, and our auditors discussing the issues with local authorities, some local authorities are considering establishing an audit committee.
- 5.003 This article reports on information obtained by our auditors during the 1997-98 audits on the operation of audit committees.

The Existence of Audit Committees

- 5.004 Of the 86 local authorities, 37% did not have an audit committee. The remaining 63% had established an audit committee or had another committee performing similar functions and tasks. A common approach adopted by the latter authorities was to have the finance committee or corporate services committee undertaking, among other activities, the functions of an audit committee.
- 5.005 Other local authorities, instead of a formal committee, had established a more informal (in terms of structure) arrangement – such as an audit liaison committee – which essentially performed similar tasks and functions to that of its more formal counterpart. As noted in our 1998 report, we would still expect the best practice guidance that we outlined in that report to apply to these more informal arrangements.

¹ *First Report for 1998*, parliamentary paper B.29[98a], pages 94-95 and 111-121.

5.006 It was not necessarily the smaller local authorities that did not have an audit committee. The absence of a committee was reasonably well spread among smaller, medium and larger authorities.

What Our Auditors Reviewed

5.007 Where a local authority had an audit committee (or a similar arrangement as outlined above) we asked the auditor to obtain information on:

- The composition of the audit committee – including the number of committee members, the position of the committee members (for example, chairperson, member, external co-opted member), and the background and experience they brought to the committee.
- Who else attended audit committee meetings – including those having “in attendance” or “observer” status, such as the chief executive or the chief financial officer of the local authority, and the internal or external auditor.
- The frequency of meetings and whether a record was kept of those meetings.
- Whether the public had access to the meetings.
- The role and functions of the committee, and whether the committee’s functions and responsibilities were set out in a charter or other similar governance document.

The Composition of Audit Committees

5.008 Audit committee sizes ranged from 2 to 14 members. A few local authorities included all councillors on their committee or, alternatively, the full council undertook the role and functions of an audit committee. The majority of committees (63%) operated with between three and five members.

5.009 From the information provided by our auditors, we noted diversity in the backgrounds of committee members. We support this approach, as it brings a wide range of viewpoints to the process. Generally, specific accounting skills and support came from the other committee attendees

(such as the chief executive and the chief financial officer) rather than the committee members.

- 5.010 Our 1998 report also discussed the benefits an external member can bring to the committee. We are aware of only one local authority that has opted for external membership on its audit committee.

Other Audit Committee Attendees

- 5.011 In most cases, the chief executive and chief financial officer attended all audit committee meetings. Other senior staff and the external auditor were also present for most meetings.

Frequency of Meetings

- 5.012 Most audit committees met on an “as required basis” – generally, between two and three times a year. Obviously, where the finance committee or corporate services committee was undertaking (among other activities) the functions of the audit committee, the meetings were consistent with the standing meeting cycle of the local authority – generally, monthly or six-weekly. In these instances the audit committee role would usually be performed at two or three of those meetings a year.
- 5.013 Some of our auditors made the comment that audit committee meetings were usually held at the instigation of the external auditor rather than the local authority.

Record of Audit Committee Meetings

- 5.014 Of the local authorities with an audit committee, 19% did not keep minutes or some other written record of the meetings. In most instances where minutes were not kept, it was due to the committee being more of an informal arrangement (such as an audit liaison committee) rather than a formal committee of the authority.

Public Access to Meetings

- 5.015 Subject to the provisions for public exclusion under the Local Government Official Information and Meetings Act 1987 (the Act), 69% of local authorities allowed the public to attend audit committee meetings. Some of these local authorities invoked the Act to exclude the public from part of the meeting.
- 5.016 Again, most of the instances where the public was not allowed access to the meetings were due to the committee being an informal arrangement. In some instances the audit liaison committee (or equivalent) reported back to a council meeting or council sub-committee meeting, thereby bringing the issues into the public domain.

Role and Functions of Audit Committees

- 5.017 Our 1998 report listed a broad range of responsibilities that the audit committee could undertake. Our survey found that the role and functions undertaken vary between each local authority. Generally, however, a large number of committees confined themselves to activities related to the external audit – such as reviewing the audit engagement letter and reviewing the external auditor’s management report.
- 5.018 Fewer audit committees were involved with the broader functions of reviewing the local authority’s exposure to risk and fraud and reviewing its financial policies and procedures.
- 5.019 We suggest that local authorities review the functions of their audit committees against the list in our 1998 report and, where appropriate, consider whether the role of the committee needs to be expanded to encompass other functions.

Governance Documents

5.020 The majority of audit committees (62%) had some documentation outlining the role and functions of the committee – although the level of detail in these documents varied. While some committees operated with comprehensive terms of reference, others were operating under a briefly worded delegation from the council.

Conclusion

- 5.021 We encourage those local authorities that do not have an audit committee in place to establish one. While our preference is to have an audit committee established as a formal committee of the local authority, there are other possible arrangements where the role and functions of an audit committee can still be undertaken (such as an audit liaison committee or the local authority's finance committee). These are acceptable alternatives, provided the best practice guidance in our 1998 report is followed.
- 5.022 For those local authorities that already have an audit committee in place, we encourage the committee members to read our 1998 report article – the role and functions section in particular – to review their committee's effectiveness against best practice guidance.

