

**NEW FOREST NATIONAL PARK AUTHORITY**

**AUTHORITY MEETING - 16 NOVEMBER 2006**

**ESTABLISHING THE FUNCTIONS OF AN AUDIT COMMITTEE IN THE NEW FOREST NATIONAL PARK AUTHORITY**

**Report by:** Pat Higgins, Chief Finance Officer and Lindsay Cornish, Chief Executive

**Summary:**

At its meeting on 20 July 2006 the Authority resolved to establish a Resources and Performance Committee and agreed the Committee's membership and Terms of Reference. The question of whether a separate Audit Committee should be established was held over until the Autumn to enable officers and the Committee to consider recent guidance to local authorities on separation of resource allocation and financial audit functions, alongside consideration of efficient administration. This report sets out proposals for ensuring the delivery of audit committee functions in the New Forest National Park Authority, which have been discussed with the Resources and Performance Committee. It summarises:

- background on the need for audit committees
- the benefits of audit committees
- options for implementing an audit committee function.

The report also covers the role of the Standards, and Resources and Performance Committees in monitoring the development of corporate governance arrangements within the Authority.

**Recommendations:**

- 1 That the terms of reference of the Resources and Performance Committee be amended to include the functions of an audit committee, as set out in Section 4 of Annex 1.**

**2 That the delivery of the audit committee function by the Resources and Performance Committee be reviewed after operating two full years of the audit function.**

**Resources:**

Routine

**Papers:**

NFNPA 138/06: Cover paper

NFNPA 138/06: Annex 1 – Resources and Performance Committee –  
Revised terms of reference

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**1 Introduction**

- 1.1 This report sets out the issues relating to the delivery of audit committee functions in the Authority to ensure compliance with guidance on good corporate governance.
- 1.2 It also outlines proposals for monitoring the Authority's progress and compliance with its corporate governance arrangements.

**2 Background**

- 2.1 The Account and Audit Regulations 2003 specifically identify the responsibility of authorities to ensure that their financial management is adequate and effective and that there are sound systems of internal control and risk management.
- 2.2 The 2006 amending Regulations impose additional responsibilities and procedures on local authorities which further develop existing duties by requiring to conduct a review of the effectiveness of their systems of internal audit, at least annually, and that the findings of this review are considered as part of the systems of internal control within the annual Statement of Internal Control.
- 2.3 To guide local authorities in achieving this, a new Code of Practice, which outlines the role of an audit committee, has been developed by the Chartered Institute of Public Finance Accountancy (CIPFA). The new code reinforces the existing framework to ensure good corporate governance includes independent and effective assurance about the adequacy of financial management and reporting.

- 2.4 The Monitoring Officer and Chief Finance Officer have a duty to undertake an annual review of the corporate governance arrangements the Authority and report back to the 'responsible body' the findings of the review and any recommendations for improvements to the corporate governance framework. The first review will be undertaken during the current financial year, for reporting by June 2007.
- 2.5 This review, together with a comprehensive programme of work by Internal Audit, forms the basis of the Statement of Internal Control which is part of the statutory annual financial statements for the Authority.
- 2.6 In compliance with the Account and Audit Regulations 2006, the Authority is required formally to adopt the Statement of Internal Control and Statement of Accounts before 30 June each year. Both documents are part of the general framework for corporate governance.

### **3 Proposals for the role of an Audit Committee**

- 3.1 Although the Account and Audit Regulations do not require local authorities to have an audit committee, members need to be satisfied that the Authority's audit arrangements are effective.
- 3.2 The Code of Practice identifies the benefits of an audit committee as:
- raising greater awareness of the need for internal control and the implementation of audit recommendations;
  - increasing public confidence in the objectivity and fairness of financial and other reporting;
  - reinforcing the importance and independence of internal and external audit and any other similar review process; and
  - providing additional assurance through a process of independent and objective review.
- 3.3 The role of an audit committee is to support the statutory role of the Section 151 Officer, who is responsible for the overall financial administration of the Authority and for maintaining an effective and adequate internal audit.
- 3.4 The core functions of an audit committee taken from the CIPFA guidance are set out in Section 4 of the revised Terms of Reference for the Resources and Performance Committee at **Annex 1** to this report.

## **4 Options for delivering audit committee functions in the Authority**

- 4.1 The CIPFA guidance, which is targeted at mainstream local authorities, suggests that audit committee functions are best delivered by an audit committee which is independent of any executive and scrutiny functions. However, it is for individual authorities to decide on the most effective arrangements for their own organisation to ensure that their financial management is adequate and effective and that there are sound systems of internal control. (Less than half of all mainstream local authorities currently have Audit Committees).
- 4.2 The Authority, which has a far more limited range of executive (and scrutiny) functions than mainstream local authorities, and thus more flexibility to set up a structure which meets the principles of the guidance, has three options for delivering audit committee functions:
- i) set up a separate audit committee;
  - ii) include audit committee functions in the terms of reference for the Standards Committee; or
  - iii) include audit committee functions in the terms of reference of the Resources and Performance Committee.
- 4.3 In deciding whether it is appropriate for the audit committee function to be delegated to an existing committee, members need to consider the size of the Authority and its budget, the scale, nature and range of its duties and activities, the risks they pose for the Authority and the current terms of reference for both the Standards and Resources and Performance Committees.
- 4.4 On option (i) while a separate audit committee would provide the greatest degree of independence e.g. from resource allocation, in practice the committee's workload would be insubstantial and there would inevitably be some duplication with both the Standards and the Resources and Performance Committees. It would create an additional administrative burden.
- 4.5 On option (ii) the Standards Committee's main function is the oversight of the ethical standards and practices of the Authority, although it did, in the absence of any other relevant committee, review the Code of Practice for Corporate Governance adopted by the Authority at its May 2006 meeting. The Committee comprises both Authority and independent members.
- 4.6 On option (iii) the terms of reference for the Resources and Performance Committee already include receipt of the District Auditor's annual Governance Report and Opinion and consideration of any reports on the Authority's corporate governance framework which do not fall under the

remit of the Standards Committee. It includes members with a range of financial expertise drawn from local government and the private sector.

4.7 On balance, taking account of the need for governance arrangements which are proportionate with the size, nature and risks of the Authority's functions, and the current make up and role of the existing relevant committees, the Resources and Performance Committee appears to be the best location for the additional functions of an audit committee, rather than establishing a new one. Proposed amendments to the terms of reference for the Resources and Performance Committee to insert audit committee functions at Section 4 are set out in **Annex 1**. The Committee should, nevertheless, review the arrangements after two years of full audit operations.

4.8 Responsibility for approval of the Statements of Accounts and Internal Control, and monitoring compliance with the Code of Practice for Corporate Governance would remain functions performed by the full Authority.

## **5 Monitoring of compliance with the Code of Practice for Corporate Governance**

5.1 The Monitoring Officer and S151 Officer will cover the democratic and financial management arrangements of the Authority in their assessment of the progress made by the Authority in further developing its corporate governance framework. It is appropriate therefore that both the Standards and Resources and Performance Committee each receive and consider the first annual report, following the review, as envisaged by their terms of reference.

## **6 Recommendations**

**1 That the terms of reference of the Resources and Performance Committee be amended to include the functions of an audit committee, as set out in Section 4 of Annex 1.**

**2 That the delivery of the audit committee function by the Resources and Performance Committee be reviewed after operating two full years of the audit function.**

## **RESOURCES AND PERFORMANCE COMMITTEE – REVISED TERMS OF REFERENCE**

### **1 Membership and Quorum**

- 1.1 The Committee shall comprise seven members to be appointed each year at the Annual Authority meeting and who will reflect the overall composition of the Authority in terms of the balance between local authority and Secretary of State appointments.
- 1.2 The Committee shall conduct its business in accordance with the terms of the Authority's Standing Orders.

### **2 Delegated functions**

- 2.1 The Committee's remit shall cover :
  - budgets and financial matters
  - human resource matters
  - performance against targets and budgets
  - monitoring complaints
  - programmes for the development and improvement of the Authority's performance
  - monitoring and overseeing Corporate Governance arrangements.

### **3 Financial matters**

- 3.1 The Committee shall:
  - a) consider and make recommendations to the Authority on its overall financial strategy, including allocation of resources and budget priorities;
  - b) oversee the preparation of detailed estimates of income and expenditure in accordance with the overall financial strategy and recommend approval of these budgets before the beginning of each financial year;
  - c) approve the Authority's annual Grant bid to Defra (if required);
  - d) consider and approve the annual Treasury Management Strategy;

- e) monitor and manage the financial performance of the Authority in relation to agreed parameters; receive and review monthly and quarterly budgetary control reports from the Chief Finance Officer; approve any virement and supplementary budget requests;
- f) oversee the preparation of the Authority's annual accounts for approval by the Authority;
- g) receive the District Auditor's annual Governance Report and Opinion.

#### **4 Audit Committee role**

4.1 To discharge the functions of an audit committee as follows:

- a) To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- b) To seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- c) 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.
- d) Approve (but not direct) internal audit's strategy, plan and monitor performance.
- e) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- f) Receive the annual report of the head of internal audit.
- g) Consider the reports of external audit and inspection agencies.
- h) 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.
- i) 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.

## **5 Human and other resources**

### **5.1 The Committee shall :**

- a) ensure and oversee the effective and efficient use of the Authority's human resources;
- b) approve policies, guidelines and strategies on human resources and any industrial relations matters;
- c) in so far as such matters are not delegated to officers, oversee activities relating to the employment of the Authority's staff;
- d) ensure the Authority properly undertakes its responsibilities for its staff and others relating to welfare, health and safety, working time Directive and pensions provision;
- e) participate as appropriate in any forum established for consultation with staff and their trade unions on human resourcing issues;
- f) ensure the effective and efficient management of the Authority's information technology systems and oversee the development and implementation of any related strategies;
- g) monitor the acquisition, disposal and management of property, or any other assets and the granting or taking of leases or licences in general; act on behalf of the Authority in relation to any planning applications it proposes to make.

## **6 Performance**

### **6.1 The Committee shall:**

- a) monitor and review the performance of the Authority having regard to any development or Performance Improvement Plan, statutory or other performance indicators set out in the Corporate Plan (Best Value Performance Plan), or agreed service standards and targets, and achievement of organisational, service, cross cutting and policy objectives;
- b) consider and make recommendations on the Authority's annual performance indicators;
- c) consider reports on any Best Value Reviews of services and on any future national park performance assessment or analogous peer reviews;

- d) receive and consider reports on customer survey/satisfaction;
- e) receive and consider an annual report on the complaints procedure;
- f) agree any Performance Improvement Plans.

## **7 Corporate governance**

- 7.1 The Committee shall receive and consider any reports on the Authority's corporate governance framework which do not fall under the remit of the Standards Committee.

## **8 Appointment of sub-committees, panels, working or task and finish groups**

- 8.1 The Committee shall appoint panels, temporary working or task and finish groups relevant to the functions of the Committee and receive reports from them and may request the Authority to establish any relevant sub-committees.
- 8.2 The Human Resources Case Review Panel is established as a sub-committee with delegated authority to determine, on behalf of the Authority, individual cases of appeal under the Authority's disciplinary and grievance procedures and such other matters relating to individual members of staff as require determination by the Authority. It shall meet as and when circumstances require, and comprise three members of the Committee (two local authority appointed members and one Secretary of State appointed member), as agreed by the Chairman of the Committee.