

Section 5 – Financial reporting and regulatory matters

Compliance with the law and regulations governing local authorities

Changes in legislation occur regularly within the sector and it is imperative that the authority establishes a mechanism to ensure that its audit committee members are aware of relevant topical legal issues.

To keep the audit committee up to date, it is worth considering including the following on the audit committee's agenda:

- an update of relevant circulars and correspondence from government departments etc
- relevant minutes and papers from council meetings (these are especially helpful for co-opted members)
- relevant reports from the Audit Commission, National Audit Office and other relevant regulators

Financial Statements

The Audit Committee should review the Financial Statements before submission to the full Council, focusing particularly on:

- the outcome of reviews of the effectiveness of the internal control arrangements including internal audit
- the wording in the Statement on Internal Control and other disclosures relevant to the Terms of Reference of the Committee
- changes in, and compliance with, accounting policies and practices
- unadjusted mis-statements in the financial statements
- major judgemental areas
- significant adjustments resulting from the audit
- any relevant issues raised in the external auditor's report to those charged with governance

The Committee should also ensure that the systems for financial reporting to the full Council, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the full Council and its committees.

The timetable for preparing the financial statements is normally tight. If the audit committee is to play an effective role in the process, it needs to hold a meeting before the financial statements are formally approved. The role of the audit

committee in the approval, and the purpose of the meeting should be made absolutely clear. If there are any delays in preparing and auditing the financial statements the audit committee should find out why, as they may be due to underlying problems within the finance department or audit process.

However, the audit committee needs to ensure it does not become involved in any details that should be dealt with more properly by the director of finance, designated office holder or other relevant committee.

QUESTIONS FOR AUDIT COMMITTEE MEMBERS – REVIEW OF THE FINANCIAL STATEMENTS

- Which significant items in the accounts are based on accounting estimates? Which accounting policies followed by the authority required an element of judgment in their application? How does the approach taken this year to these items and policies compare with the previous year?
- Have there been any developments in accounting standards or generally accepted accounting practice of relevance to the authority since the audit committee last reviewed the authority's accounting policies and practices?
- Do the financial statements satisfy all statutory and other regulatory disclosure requirements to which the authority is subject?