

Sue Essex AM

*Minister for Finance, Local Government and Public Services
Y Gweinidog dros Gyllid, Llywodraeth Leol a Gwasanaethau Cyhoeddus*



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Our ref: SF/SE/0353/06
Your ref:

To Leaders and Chief Executives of county and county borough councils; leader and director of the WLGA; Jeremy Colman, Wales Audit Office; Maria Jones, CIPFA Wales; Ann Jones AM, Chair, Assembly Local Government and Public Services Committee

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Dear Colleague

Audit Committees: Practical Guidance for Local Authorities

In their 2004 report "The Operation of New Political Management Structures in Local Government", the Assembly's Local Government and Public Services Committee recommended that the Assembly Government strengthen its existing guidance in relation to the audit function and that local authorities review whether their audit function fulfils requirements of transparency and clarity in its relationships with other parts of the council structure.

Statutory guidance issued by the Assembly under section 38 of the 2000 Act ("Guidance for County and County Borough Councils in Wales on Executive Arrangements") already encourages local authorities to establish audit committees as a matter of best practice. It recommends that no members of executives sit on audit committees and that councils may wish to consider non-councillor members, without voting rights. Further, it is proposed that audit committees not be chaired by members of a controlling political group. Regulations governing the operation of alternative arrangements provide that no board member may sit on an audit committee and that the committee chair must be a member of a different group to the chair of the board.

While supporting the committee's recommendation in principle, I told them that I was aware that the Chartered Institute for Public Finance and Accountancy (CIPFA) were in the process of publishing guidance to local authorities and that, once available, the Assembly Government would consider whether it could commend it to local authorities.

CIPFA published "Audit Committees – Practical Guidance for Local Authorities" towards the end of 2005, aimed at local authorities in England and Wales, in response to what they felt was a mixed pattern of adoption and practice of audit committees in local government. In summary, the CIPFA guidance calls for the establishment of audit committees independent of executive and scrutiny, offers advice as to how to establish an audit committee, outlines the main purposes of an audit committee in relation to risk management, governance and assurance. Although the



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document does not specifically mention councils operating under "alternative arrangements", I am of the view that the principles contained within it apply with equal force to them.

I commend this guidance to you and hope that local authorities will ensure that, as far as is practical, local authorities make arrangements in line with the principles CIPFA puts forward. They will, I believe, lead to a greater clarity and transparency in the way authorities deliver effective governance.

Yours sincerely

Sue Essex