

**AGENDA ITEM: 6**

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Meeting	Audit Committee
Date	20 March 2007
<b>Subject</b>	Review of effectiveness and terms of reference of the Audit Committee
Report of	Deputy Director for Resources & Chief Finance Officer
Summary	To review the Committee's effectiveness, as required annually by its terms of reference, and to review the terms of reference.

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Officer Contributors:	Clive Medlam, Deputy Director for Resources & Chief Finance Officer; Michael Bradley, Head of Internal Audit & Ethical Governance; Jonathan Bunt, Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	none
Enclosures	Appendix A : Review of effectiveness Appendix B : Terms of reference
For decision by	The Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

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## **1. RECOMMENDATIONS**

- 1.1** The Committee's views are sought on the review of effectiveness of the Committee over the past year, as attached at Appendix A.
- 1.2** That the Committee identify any development requirements of its Members, collectively or individually.
- 1.3** That the Committee consider the Committee's terms of reference as set out in the Constitution and at Appendix B and instruct the Deputy Director for Resources & Chief Finance Officer to make any recommendations for change to the Special Committee (Constitution Review).

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1** Audit Committee 15 February 2006 resolved to recommend to the Special Committee (Constitution Review) that the proposed Terms of Reference for the Audit Committee, including to conduct an annual review of the Committee's effectiveness, be adopted and included in the Constitution.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1** Reviewing the work of the Audit Committee is an essential aspect of corporate governance.

## **4. RISK MANAGEMENT ISSUES**

- 4.1** The majority of the Audit Committee's work programme is inextricably linked to risk management.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1** Monitoring of the Council's systems for accounting, regulation and control contribute to the management of resources and ensuring the equitable delivery of services to all members of the community.

## **6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS**

- 6.1** None.

## **7. LEGAL ISSUES**

- 7.1** None.

## **8. CONSTITUTIONAL POWERS**

- 8.1** This Committee's terms of reference include a requirement to review annually the Committee's effectiveness

## **9 BACKGROUND INFORMATION**

- 9.1 Attached at Appendix A is a review of effectiveness for the past year, using the recommended template from the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance on model audit committees. This shows that the Audit Committee has substantially operated in line with recommended practice.
- 9.2 In response to the large number of new Members joining the Committee in May 2006, including a new chairman being appointed, a training event was scheduled for the Committee ahead of some of the meetings during 2006/07. Members are invited to consider what further training they would like considered during 2007/08, either for the Committee as a whole or individually.
- 9.3 In reviewing the Committee's effectiveness it makes sense to also review its terms of reference, which are set out in Appendix B. These were reviewed during 2006 and were brought very much in line with the CIPFA model for audit committees, although Members will recall that the majority of functions were already being performed by the Committee previously.
- 9.4 There are no recommendations for changing any of the terms of reference. In reviewing these, however, Members are asked to keep in mind the "Statement of Purpose" set out in the terms of reference which are much more focused than for a scrutiny committee.
- 9.5 One outstanding point from the discussion last year was whether there should be co-option of external members. It was agreed that the practice within other London Boroughs be investigated and to review the position within Barnet in the light of this feedback. Information obtained from other boroughs will be reported verbally at the meeting.

## **10. LIST OF BACKGROUND PAPERS**

- 10.1 None.

Legal: MM

CFO: CM

## Appendix A

### Measuring the Effectiveness of the Audit Committee

Issue	Yes / No	Comment
<b>Terms of Reference</b>		
Have the committee's terms of reference been approved by full council?	Yes	As part of Constitution review that was completed in 2006. This annual effectiveness review also includes a short review of terms of reference.
Do the terms of reference follow the CIPFA model?	Yes	The Chief Finance Officer conducted the 2006 review against these.
<b>Internal Audit Process</b>		
Does the committee approve the strategic audit approach and the annual programme?	Yes	Annual plan agreed in March/April every year.
Is the work of internal audit reviewed regularly?	Yes	Annually by External Audit.
Are summaries of quality questionnaires from managers reviewed?	No	Recently dropped as a performance indicator to align Audit Committee and corporate performance management arrangements. However, information still recorded by Internal Audit and can be reinstated if required.
Is the annual report, from the head of audit, presented to the committee?	Yes	Interim and annual reports are presented to the Audit Committee by the Head of Internal Audit & Ethical Governance. Report incorporates a review against the Internal Audit work plan agreed at the start of the year.
<b>External Audit Process</b>		
Are reports on the work of external audit and other inspection agencies presented to the committee?	Yes	The Chairman of the Audit Committee also reviewed the full range of External Audit reports received during the year with the Head of Strategic Finance, and further reports have now been added to the annual work plan for the committee.
Does the committee input into the external audit programme?	Yes	The committee receives a report on the External Audit plan, which it is able to make recommendations on. The committee also asked the external auditor to do some additional work to review progress with fixed asset revaluations.
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Yes	Response from officers and subsequent action plans form part of the Internal Audit reports to the committee. Where the committee is not satisfied with the response by Directors to audit recommendations, the committee requires the Directors to attend its meetings to give an explanation.

Does the committee take a role in overseeing: <ul style="list-style-type: none"> <li>• risk management strategies</li> <li>• internal control statements</li> <li>• anti-fraud arrangements</li> <li>• whistle-blowing strategies?</li> </ul>	Yes Yes Yes Yes	The committee approves the corporate Statement on Internal Control (SIC) and receives an annual report from the Corporate Anti Fraud Team (CAFT), which includes whistle blowing
<b>Membership</b>		
Has the membership of the committee been formally agreed and a quorum set?	Yes	
Is the chairman free of executive or scrutiny functions?	Partly Met	The 2006 Constitution review introduced the requirement for the chairman to be from an opposition party. The current chairman, however, is a substitute member for several scrutiny committees.
Are members sufficiently independent of the other key committees of the council?	Yes	No Cabinet members sit on the Audit Committee.
Have all members' skills and experiences been assessed and training given for identified gaps?	Partly Met	In response to the large number of new Members joining the committee in May 2006, including a new chairman being appointed, a training event was scheduled for the committee ahead of some of the meetings during 2006/07.
Can the committee access other committees as necessary?	Yes	
<b>Meetings</b>		
Does the committee meet regularly?	Yes	Meetings are also planned around the dates for key reports being produced, e.g. Statement of Accounts, SIC, Annual Audit Letter.
Are separate, private meetings held with the external auditor and the internal auditor?	Yes	
Are meetings free and open without political influences being displayed?	Yes	Meetings are also open to the public.
Are decisions reached promptly?	Yes	
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Yes	Where it has been difficult to get reports completed the chairman has agreed to additional meetings rather than have late reports circulating.
Does the committee have the benefit of attendance of appropriate officers at its meetings?	Yes	
<b>Training</b>		
Is induction training provided?	Yes	See earlier answer.
Is more advanced training available as required?	Yes	See earlier answer.
<b>Administration</b>		

Does the authority's Section 151 officer or deputy attend all meetings?

Yes

Are the key officers available to support the committee?

Yes

## **Audit Committee Statement of Purpose & Terms of Reference**

### **Statement of Purpose**

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

### **Terms of Reference**

#### Audit Activity

1. To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of internal audit services.
4. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's external auditors.
9. To commission work from the internal and external audit.

#### Regulatory Framework

10. To maintain an overview of the council's constitution in respect of contract procedure rules and financial regulations.
11. To review any issue referred to it by the chief executive or a director, or any Council body.

12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.
14. To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
15. To consider the Council's compliance with its own and other published standards and controls.

#### Accounts

16. To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
17. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

#### Review of Effectiveness

18. To conduct an annual review of the effectiveness of the Audit Committee.