

AGENDA ITEM: 8

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Meeting	Audit Committee
Date	27 February 2008
Subject	Review of the Effectiveness and Terms of Reference of the Audit Committee
Report of	Director of Corporate Governance
Summary	To review the Committee's effectiveness, as required annually by its terms of reference, and to review the terms of reference.

Officer Contributors	Jeff Lustig, Director of Corporate Governance Michael Bradley, Head of Internal Audit and Ethical Governance Clive Medlam, Deputy Director for Resources and Chief Finance Officer
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Review of Effectiveness Appendix B – Statement of Purpose and Terms of Reference
For decision by	The Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Michael Bradley, HIAEG, 020 8359 7151.

1. RECOMMENDATIONS

- 1.1 The Committee's views are sought on the review of the effectiveness of the Committee in 2007/8, attached at Appendix A.**
- 1.2 That the Committee identify any additional 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 Director of Corporate Governance to make any recommendations for change to the Special Committee (Constitution Review).**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 20th March 2007 resolved that:

(1) .. the review of effectiveness of the Committee over the past year 2006-7, ..., be noted and,

(ii) the Head of Internal Audit and Ethical Governance be instructed to re-instate the reporting of summaries of quality questionnaires from managers reviewed to the Committee.

(2) That the Committee had no further development requirements for its Members, beyond those identified at its last meeting.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to ensure that the Audit Committee is fully effective could have a negative impact on the Authority's Corporate Governance and Risk Management arrangements.

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 2007-8, using the recommended template from the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on model audit committees. This shows that the Audit Committee has substantially operated in line with recommended practice. Members are asked to consider the review. The Committee has undertaken a full body of work during the year including agreeing and monitoring the annual plans and reports of the Internal Audit and CAFT units as well as receiving reports from the Council's external auditors.
- 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. In 2007/8 briefing sessions have been conducted on PSCIP, Payroll and on changes to Accounting requirements. Attendance at these sessions has ranged from two or three attendees to a majority of members attending. Members are invited to consider what further training they would like considered during 2008/09, 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 have been previously reviewed in 2006 and again in 2007. There are no recommendations for changing any of the terms of reference, but the Committee are asked to consider the matter.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal – JEL
CFO – CM

Measuring the Effectiveness of the Audit Committee

Issue	Yes / No	Comment
Terms of Reference		
Have the committee's terms of reference been approved by full council?	Yes	As part of Constitution review that was completed in 2007. 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 2007 review against these.
Internal Audit Process		
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 and in 2007/8 also via a peer review by Surrey CC and a further internal review.
Are summaries of quality questionnaires from managers reviewed?	Yes	They are reported in interim and annual reports to the Committee
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. Reports incorporate a review against the Internal Audit work plan agreed at the start of the year.
External Audit Process		
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.
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.
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 senior managers, the Committee can request the managers to attend its meetings to give an explanation.
Does the committee take a role in overseeing: <ul style="list-style-type: none"> • risk management strategies • internal control statements • anti-fraud arrangements • whistle-blowing strategies? 	Yes Yes Yes Yes	The Committee will approve the corporate Annual Governance Statement (AGS) and receives an annual report from the Corporate Anti Fraud Team (CAFT), which includes information on whistle blowing activity.
Membership		
Has the membership of the committee been formally agreed and a quorum set?	Yes	Approved by Council

Is the chair free of executive or scrutiny functions?	Partially	The 2006 Constitution review introduced the requirement for the chairman to be from an opposition party. The Chairman has no executive functions but is a substitute for two Scrutiny Committees. Additionally, the Chairman should not be permitted to serve in that role for more than four consecutive years.
Are members sufficiently independent of the other key committees of the council?	Yes	None of the Audit Committee members have any executive function. Other Committee memberships are non executive and relate to the scrutiny and planning functions.
Have all members' skills and experiences been assessed and training given for identified gaps?	Partly	Training events and a number of presentations have been provided to the Committee. Individual assessments have not been conducted.
Can the committee access other committees as necessary?	Yes	However, it was envisaged when the Audit Committee was established that it would be informed of all service inspection reports received from the perspective of reviewing any internal control weaknesses that these might be highlighting. This has not formally occurred to date.
Meetings		
Does the committee meet regularly?	Yes	Meetings are also planned around the dates for key reports being produced, e.g. Statement of Accounts, AGS, Annual Audit Letter.
Are separate, private meetings held with the external auditor and the internal auditor?	Yes	The Chairman meets regularly with the HIA&EG and the representatives of the external auditor. These meetings cover, inter alia, discussions of major risk areas, audit coverage and the Committee's information and reporting requirements.
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	
Does the committee have the benefit of attendance of appropriate officers at its meetings?	Yes	
Training		
Is induction training provided?	Yes	See earlier answer.
Is more advanced training available as required?	Yes	See earlier answer.
Administration		
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 Annual Governance Statement 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.