

**AGENDA ITEM: 9**

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Meeting	Audit Committee
Date	27 April 2009
<b>Subject</b>	<b>Annual Review of Audit Committee's Effectiveness</b>
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.

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Officer Contributors:	Jeff Lustig, Director of Corporate Governance Hem Savla, Acting Head of Internal Audit and Ethical Governance Clive Medlam, Director for Resources and Chief Finance Officer Jonathan Bunt, Acting Assistant Director of Resources
Status (public or exempt)	Public
Wards affected	none
Enclosures	Appendix A : Review of Effectiveness Appendix B : Audit Committee 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 the effectiveness of the Committee in 2008/9, 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).**
- 1.4 That the officers be asked to report back at the September 2009 meeting on the progress with the assessments skills and experiences of the members of the Audit Committee.**
- 1.5 That the Head of Internal Audit and Ethical Governance be asked to review the arrangements adopted by selected London boroughs to assess effectiveness of their audit committees and report back on the progress to the September 2009 meeting.**

## **2 RELEVANT PREVIOUS DECISIONS**

- 2.1 The Audit Committee on 27<sup>th</sup> February 2008 resolved that:**
  - (1) the review of the effectiveness of the Committee in 2007/8, ..., be noted and,
  - (2) the Committee's Terms of Reference as set out in the Constitution .... be noted.

## **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 USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

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 2008/9, 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 the approval of the Council's Statement of Accounts, Annual Governance Statement, agreeing and monitoring the annual plans and reports of the Internal Audit and Corporate Anti Fraud Team as well as receiving reports from the Council's external auditors.

9.2 Following the appointment of the large number of new Members joining the Committee in May 2006, a training event was scheduled for the Committee ahead of some of the meetings during 2006/07. Training sessions were provided in June 2007 and June 2008 on the main changes to the Statement of Accounts to inform Members ahead of asking the committee to approve the document. Further training sessions were provided during the Committee's meetings in February (on the role of the Audit Committee) and March 2009 (on Governance). A presentation was given at the December 2008 meeting on the process for capturing corporate risks and maintaining the corporate risk register. Training session on the interpretation of the Statement of Accounts is scheduled for April 2009 meeting. Members are invited to consider what further training they would like considered during 2009/10, either for the Committee as a whole, or individually. Appendix C lists potential areas for member training identified by CIPFA in their guidance 'Audit Committees: Practical Guidance for Local Authorities'.

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 2007 and again in 2008. 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

## 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 2008. This annual effectiveness review also includes a short review of terms of reference.
Do the terms of reference follow the CIPFA model?	Yes	The Head of Internal Audit and ethical Governance conducted the 2008 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 every year. The 2008/9 annual plan was approved on 19 March 2008. The 2009/10 annual plan was approved on 10 March 2009.
Is the work of internal audit reviewed regularly?	Yes	Annually by External Audit. The work of internal audit was last reviewed by External Audit as part of their 2007/8 audit.
Are summaries of quality questionnaires from managers reviewed?	Yes	They are reported in interim and annual reports to the Committee. The review of quality questionnaire was last reported on 9 December 2009.
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 and Ethical Governance. Reports incorporate a review against the Internal Audit work plan agreed at the start of the year. The 2007/8 Annual Report was presented to the Committee on 8 June 2008.
<b>External Audit Process</b>		
Are reports on the work of external audit and other inspection agencies presented to the committee?	Yes	The committee receives the relevant reports from the external auditor including the Annual Audit & Inspection Letter (2006/7 on 19 March 2008), Grants Audit (2007/8 on 5 February 2009), Data Quality (2007/8 on 5 February 2009) and ISA 260 reports (2007/8 on 25 September 2008).
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.

Issue	Yes / No	Comment
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. The Deputy Chief Executive was requested to attend the meeting of the Committee in February 2008 to provide an update on the implementation of the agreed management action with Internal Audit.
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 Annual Governance Statement (2007/8 AGS on 25 September 2008), Risk Management Strategy (18 June 2008), receives updates twice a year on the major corporate risks of the Council (18 June 2008 and 9 December 2008) and receives an annual report from the Corporate Anti Fraud Team, which includes information on whistle blowing activity (2007/8 on 18 June 2008).
<b>Membership</b>		
Has the membership of the committee been formally agreed and a quorum set?	Yes	Approved by Council on 13 May 2008.
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 one committee responsible for discharging executive function and two Scrutiny Committees. Additionally, the Chairman is not permitted to serve in that role for more than four consecutive years. Due to limited number of members available to serve on various Council committees there is little scope for increasing Chairman's independence.
Are members sufficiently independent of the other key committees of the council?	Partially	None of the Audit Committee members have any executive function but some Councillors serve on committees responsible for discharging executive functions. Other Committee memberships are non executive and relate to the scrutiny and Council functions. Due to limited number of members available to serve on various Council committees there is little scope for increasing member independence.

Issue	Yes / No	Comment
Have all members' skills and experiences been assessed and training given for identified gaps?	Partially	<p>Presentation and training events have been provided to the Committee on the topics requested or required at the appropriate times to enable members to discharge their duties.</p> <p>Individual assessments have not been conducted and will be undertaken during 2009-10.</p>
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.
<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, AGS, Annual Audit Letter. During 2008/9 the Committee met on 18 June, 30 June, 25 September, 9 December 2008, 5 February and 10 March 2009.
Are separate, private meetings held with the external auditor and the internal auditor?	Yes	The Chairman has met with the HIA&EG and the representatives of the external auditor. These meetings cover discussion 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	
<b>Training</b>		
Is induction training provided?	Yes	
Is more advanced training available as required?	Yes	See attached Appendix C for the details of the training since the last Annual Review of the Audit Committee's Effectiveness in February 2008..
<b>Administration</b>		
Does the authority's Section 151 officer or deputy attend all meetings?	Yes	The Head of Strategic Finance and other officers have deputised for the Section 151 officer.

Issue	Yes / No	Comment
Are the key officers available to support the committee?	Yes	The monitoring officer or deputy monitoring always attends. The other officers including the Head of Internal Audit and Ethical Governance attend on the need to attend basis.



### 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.

**Audit Committee: Members Training**

<b>Councillor</b>	<b>Training Received</b>
Jeremy Davies	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p> <p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p>
Daniel Webb	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p> <p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p>
Danish Chopra	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p>

<u>Councillor</u>	<u>Training Received</u>
	<p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p>
Geoff Cooke	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p> <p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p>
Tom Davey	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p> <p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p>

<b>Councillor</b>	<b>Training Received</b>
Mukesh Depala	<p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p> <p><b>5 December 2007:</b> HR Payroll/SAP Audit Training</p>
Marina Yannakoudakis	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p> <p><b>9 December 2008:</b> How corporate risks are reported and assessed by Corporate Directors (Presentation from the Head of Risk and Insurance)</p>
Wayne Casey	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p>
Dean Cohen	<p><b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)</p> <p><b>5 December 2007:</b> HR Payroll/SAP Audit Training</p>
Monroe Palmer	<p><b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)</p>

<b><u>Councillor</u></b>	<b><u>Training Received</u></b>
Hugh Rayner	<b>10 March 2009:</b> Corporate Governance, Annual Governance Statement and the Audit Committee's role in delivering Corporate Governance (CIPFA Members Training)
Alan Schneiderman	<b>5 February 2009:</b> Purposes of the Audit Committee, Terms of reference, Role of the Chairman, Role of Directors and Officers, Making the Committee work effectively, Working with Auditors and Decoding assurance levels (CIPFA Members Training)
Agnes Slocombe	None

Areas for Audit Committee Member Training

The following is a list of potential areas for member training for the Audit Committee identified by CIPFA in their Guidance entitled: Audit Committees: Practical Guidance for Local Authorities

- the role of the committee and the terms of reference
- the financial and risk environment with the importance of risk management
- financial reporting
- governance
- understanding financial statements
- the role of internal and external audit
- regularity framework, including production of the Annual Governance Statement
- an overview of Council services